building value

98 99 Annual Report

New Brunswick Power Corporation

Énergie NB Power

The CANDU-6, 635 MW unit at Point Lepreau generates low-cost electricity, supplying up to 30% of NB Power's output. Its predictable and reliable production is important to the Corporation's financial, operational and environmental performance.

nuclear

corporate services

The Corporate Services group comprises Business Information Systems, Finance, Corporate Planning, Telecommunications, Environment, Human Resources and Administration, Engineering and Technical Services, Legal and Public Affairs. By providing strategic direction and support functions, they enable the business units to better perform in the generation and delivery of low cost, reliable energy.

transmission & distribution

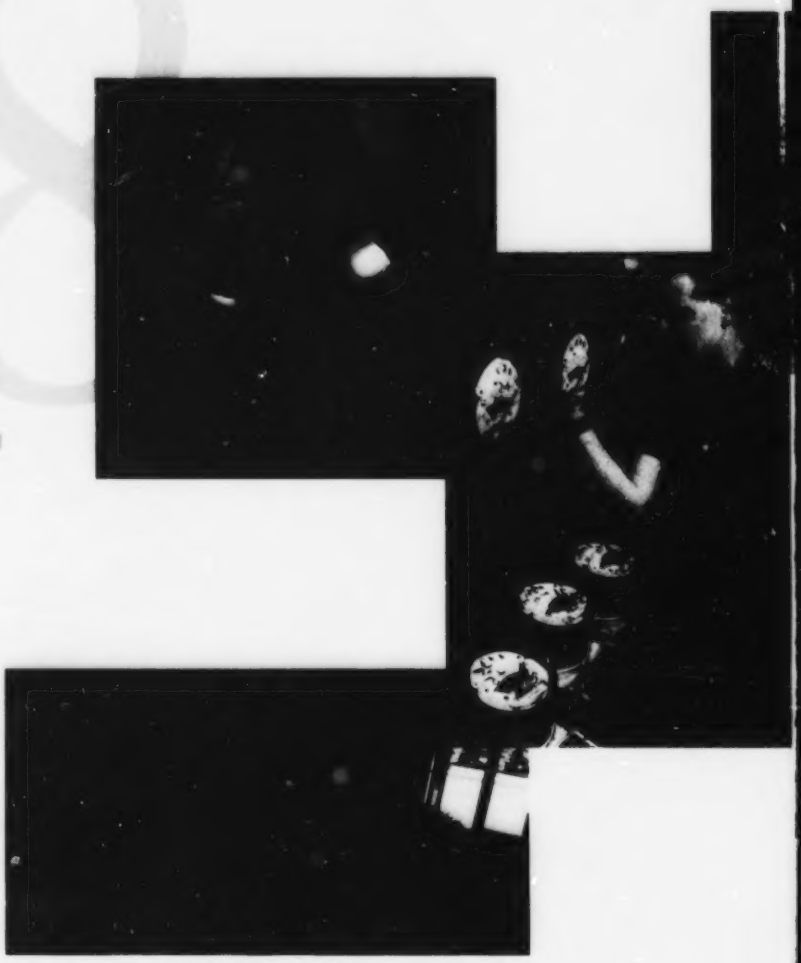
Responsible for delivering electricity in a reliable and safe manner to 340,000 direct and indirect customers, staff in five regions manages and maintains 32,000 km of power lines, as well as 360 substations and terminals. The Energy Control Centre operates the transmission and distribution systems, conducts interconnection transactions and manages generation dispatch.

100-04299/

A Crown Corporation with the legislated mandate to supply the electricity needs of the Province, New Brunswick Power Corporation is Atlantic Canada's largest electric utility. Building on an established record of achievement, NB Power has recently completed its reorganization into separate business units and is continuing its evolution into a more efficient and customer driven company.

generation

Operating one of the world's most diverse generating systems, this business unit produces economic and dependable electricity at its fourteen hydro, coal, oil and Orimulsion® powered facilities. The network of generating stations has an installed capacity totalling 3484 MW.



marketing & customer service

With its commitment to customer satisfaction and loyalty, Marketing & Customer Service focuses on customer interface, market development, account management and energy counsel. More call centre resources and new customer information technology are the tools to deliver the "Easy To Do Business With" service strategy.

building value

NB Power provides New Brunswickers with safe, dependable and economic electricity as it builds value for the owner, customers and employees alike. This fulfils the legislated mandate to "provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power."

As we move towards a deregulated market, our business objectives and strategies reflect NB Power's commitment to establishing itself as a competitive energy supplier in the emerging marketplace.

We increase our value by being innovative in the pursuit of opportunities, competitive in the conduct of operations and focused on offering ever-improving service to our customers.

For the owner
The Province and People of New Brunswick, who benefit from our success.

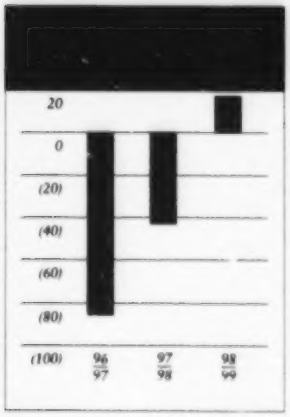
For customers
A key stakeholder group, for whom reliability, quality and affordability are fundamental.

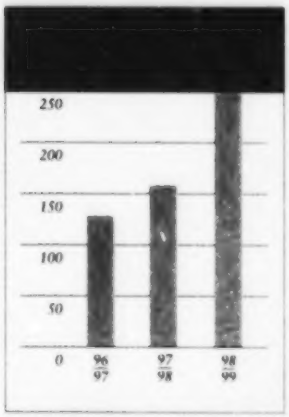
For employees
Through job fulfillment and the satisfaction and benefits that come from working in a modern and dynamic organization.

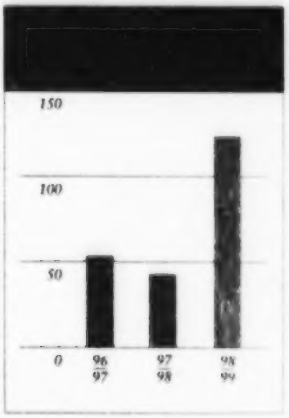
Financial Highlights

(in millions of dollars)	1998/99	1997/98	1996/97
Income (loss) before transfers and write-off	**$ 18**	$ (43)	$ (87)
Income (loss) before write-off	**$ 27**	$ (21)	$ (19)
Net loss	**$423**	$ 21	$ 19
Operating cash flow	**$247**	$163	$129
Reduction in net debt	**$123**	$ 44	$ 53
(Ratios & percentages)			
Operating margin	**30%**	26%	25%
Operating cash flow/capital expenditures	**3.80x**	2.76x	1.87x
Debt/capital	**100%**	89%	89%
Interest coverage	**1.09x**[1]	0.93x	0.94x

[1] *Before write-off of deferred charge*







I am pleased to report on a challenging and successful year for NB Power.

The Corporation's performance during 1998/99 demonstrated progress in creating a more competitive, customer-driven electric utility. Operationally, we achieved reliable and economical production and we continued to refine our marketing and service strategies. Financially, a positive net income before a write-off and continued debt reduction reflected our improving performance. The $450 million deferred charge relating to the projected life of the Point Lepreau nuclear generating station, identified last year, has been charged against income for 1998/99.

Industry Changes

During the year, an all-party Legislative Select Committee on Energy examined the electric utility sector in New Brunswick and recommended a managed transition to a deregulated electricity market. The Committee proposed that a stakeholders' group develop specific restructuring guidelines after which a competitive wholesale generation market would be gradually developed. This issue will continue to evolve as the Provincial Government formulates future energy policy.

Natural Gas

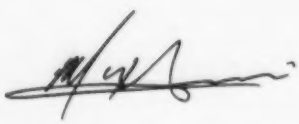
To realize the benefits from the natural gas that will soon be available in our region, NB Power has formed partnerships to redevelop generation infrastructure and take maximum advantage of our transmission access to New England. A project with Westcoast Energy to convert an oil-fired unit to a combined-cycle unit is proceeding. We also have a memorandum of understanding with Tractebel for the development of a combined-cycle natural gas plant at the Belledune site.

Corporate Governance

I look forward to working with NB Power's Board of Directors on these and other challenging issues in the future. New members Bernard Cyr and Richard Tingley bring added perspective to our deliberations. As well, a committee of the board is looking at an expanded approach to corporate governance that is appropriate for a crown corporation and we plan to include more extensive reporting on corporate governance in future reports.

I want to acknowledge the contribution of the past Chairman, Dr. Frank Wilson, over the previous three years. I saw first-hand how NB Power started on its new direction under his chairmanship and began its reorganization in preparation for a changing environment. On behalf of the board and employees, I want to thank Dr. Wilson for his contribution to NB Power.

As a new Chairman, I am impressed by the dedication and enthusiasm that is being demonstrated by employees as they face changes both in their company and in the electric utility industry. Their collective hard work has earned these positive results in 1998/99.



Max Lewis
Chairman

I am highly encouraged by the strong improvement in operating results for the year. Before a write-off of the $450 million deferred charge relating to Point Lepreau, the Corporation's reported net income was $27 million compared to a loss of $21 million the previous year.

NB Power's continuing improvement is even more apparent when viewed before transfers from a reserve account. On this basis, net income was $18 million for the year, compared to a net loss of $43 million last year, an improvement of $61 million. The transfer from a reserve account was $9 million this year and $22 million the previous year. This was the final year of draw downs from reserve accounts. In future, net income will more clearly reflect actual results from operations—a positive step towards a better understanding of the Corporation's performance.

Cash flow from operations amounted to $247 million, compared to $163 million last year. This allowed NB Power to make a significant reduction in debt for the third year in a row.

NB Power employees should take pride in these results and I would like to take this opportunity to thank them for their contribution over the past year.

Deferred Charge Write-Off

In 1997/98, we identified a deferred charge of $450 million relating to an unrecoverable portion of the net book value of the Point Lepreau nuclear generating station resulting from a shortening of the station's operating life. At that time, it was indicated that over the coming year we would either identify a new revenue stream to recover the deferred charge over a future period or write off the deferred charge against income. Discussions aimed at identifying a new source of revenue were not successful and therefore the Corporation decided to write-off the deferred charge against income. This write-off essentially eliminates the Corporation's equity base.

Rates

The last of our planned rate increases took place in October 1998 and there are no rate increases planned for the current year. Even though the Corporation's debt remains far too high, cash flow generation remains strong.

Enhanced Accountability

Considerable progress was made during the year in strengthening our business unit structure. A key achievement was a more strategic alignment of business unit goals and strategies with those of the Corporation. NB Power operates much more effectively under the business unit form of organization — managers and employees have clearer performance expectations, and they welcome being accountable for results.

Point Lepreau Performance

During the year, the Point Lepreau nuclear generation station operated at a capacity factor of 84 per cent compared to 66 per cent in the prior year. Although much work remains to be done at the station, we are encouraged by these results.

Exports

Export sales were at their highest level in many years and contributed significantly to the year's profitability. Our expectations are that NB Power will continue to experience strong performance in exports during the current year.

Electricity Restructuring

Restructuring of the North American electric utility industry is resulting in competition and customer choice. The Province of New Brunswick is currently considering options to restructure the industry here. As part of the review process, an all-party Select Committee of the Legislative Assembly held public hearings and received presentations from many individuals, groups and corporations, including NB Power.

The Committee recommended that "the province should pursue a deliberate and controlled restructuring policy" and "allow for the gradual transition of the electric industry from its monopoly structure of today." The Committee further stated their belief that "a managed transition will be less disruptive to the lives of New Brunswickers, yet improve efficiency and equity for all customers, and enhance economic development opportunities in the province." The Provincial Government indicated that it will take the Committee's recommendations under consideration as it examines future energy policy options.

Business Initiatives

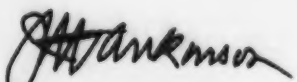
Sable Island natural gas, expected to begin flowing through the region by November 1999, will bring business development opportunities. NB Power's strategy is to maximize the value of its existing infrastructure through the generation of electricity from natural gas and the transmission of that electricity to developing markets.

The Corporation has entered agreements to redevelop existing generation infrastructure at Courtenay Bay and at Belledune. Westcoast Energy's conversion of an oil-fired unit at Courtenay Bay to a gas-fired combined-cycle unit is currently scheduled for completion in December 2000. NB Power is contributing site infrastructure and Westcoast is providing project financing. NB Power is contracting to purchase the electric output during the winter months leaving Westcoast the opportunity to export power to the United States during the balance of the year. A memorandum of understanding was signed with Tractebel, a Belgian multinational gas and electric company, to explore the development of a merchant combined-cycle natural gas plant at the Belledune site in northern New Brunswick. These merchant plant developments can deliver financial, operational and environmental benefits to the Corporation without incurring new debt.

NB Power opened its transmission system for "out" and "through" point-to-point transmission service on January 1, 1998. Work is continuing to fully unbundle the transmission operations from the Corporation's merchant generation activities. As this work is completed, all generators, including private merchant projects, will have the opportunity to provide ancillary services to the transmission system and to purchase transmission services on a fair and non-discriminatory basis. This open environment will provide fair access to external markets and remove barriers to the development of private power projects. Such projects will enhance the quality and competitiveness of New Brunswick's diverse generation system and will help achieve maximum utilization of NB Power's transmission system.

An Established Momentum

I am well satisfied with the operational and financial progress made by the Corporation in the past year. Much work remains to be done, however, I am confident that a momentum has been established that we can carry forward.



James F. Hankinson
President & CEO

Senior Management

(clockwise from foreground)

James F. Hankinson
President and Chief Executive Officer

Andrew Cormier
Vice President, Performance Improvement and President, NB Coal

Stewart MacPherson
Vice President, Corporate Planning

Jim Brogan
General Manager, Generation

Douglas Bartlett
General Manager, Transmission and Distribution

Kenneth Little
Vice President, Marketing and Customer Service

Peter Dykeman, Q.C.
Corporate Secretary and General Counsel

Marcella LeBlanc
Director, Public Affairs

Paul Theriault
Vice President, Human Resources and Administration

Sharon MacFarlane
Vice President, Finance and Information Systems

Archibald Gilliss
Senior Vice President, Operations

Roderick White
Vice President, Nuclear

Reliable power — greater value. Capitalizing on its emerging business unit strength, Generation's aggressive approach to its operations is creating efficiencies and cost reductions.

Generation has made significant strides towards establishing itself as a stand-alone business unit. Recently, it established controllership and human resource functions. On April 1, 1999, it instituted full income statement accountability. New comprehensive management reports provide timely information for cost management and better business unit performance.

During the year, Generation succeeded in reducing production costs. Though operations, maintenance and administration costs were higher than forecast due to increased operating hours at Coleson Cove, capital expenditures were lower than planned. To streamline operations and develop a better understanding of competitive electricity production, Generation has benchmarked performance indicators with leading electric utilities. Staffing was reduced by forty-four positions, a trend that will continue.

Aggressive fuels management continues to yield savings. Lower imported coal prices were negotiated, saving $5.00 per ton, while hedging protected the cost of fuel oil. A test burn of 41,000 tonnes of petroleum coke at the Belledune generating station displaced imported coal with a savings of $1.8 million. Future successful utilization of a 20 per cent blend would displace up to $10 million in imported coal costs and deliver operational efficiencies. A change in the type of Orimulsion® fuel used at Dalhousie will bring savings of $500,000 annually.

Effective utilization of existing inventory and equipment contributed significantly to cost control. Generation realized an inventory reduction of $2.9 million during 1998/99. Fleet costs were brought under tighter control as vehicles were redeployed from corporate fleet service to field service. Efficiencies were achieved through utilizing in-house machining capabilities and allocating human resources among generating facilities to replace hired services.

Over 9,500 tonnes of flyash were sold and diverted from costly landfill. A bottom ash conveyor was installed at Coleson Cove, eliminating a labour-intensive process. Using existing storage cells at Dalhousie has deferred the building of an ash cell at Belledune, reducing capital costs by $4 million. The renegotiation of a limestone contract in the northern region resulted in a price reduction of $1 million over five years. Dam integrity analysis and inundation mapping were initiated at Mactaquac, Beechwood, Tobique and Grand Falls.

Safety training occurred throughout the business unit, particularly in boom truck operations, transportation of dangerous goods and workplace hazardous material identification. A safety audit demonstrated improvement and a risk management services committee will establish areas for further improvement. There were no lost-time accidents at Courtenay Bay, Grand Lake, Coleson Cove, Belledune, Millbank and Mactaquac during the year.

Regional quarterly meetings have proven valuable forums for updating employees on business unit issues. More informally, workplace improvement and "shop talk" groups examine issues raised by staff. These groups have fostered employee participation in achieving a more efficient operation of generation stations.

NB Coal, a wholly-owned subsidiary of NB Power, continues to review operations to produce coal at a cost level that is competitive with NB Power's alternative fuel supplies. The draglines operated for eight months reaching the production target of 300,000 tons. The workforce flexibility initiative continued with services provided to the business units. NB Coal received the John T. Ryan National Safety Award for the lowest injury frequency rate in its sector for the second consecutive year. As of March 31, 1999, the company had operated 891 days without a lost-time accident.

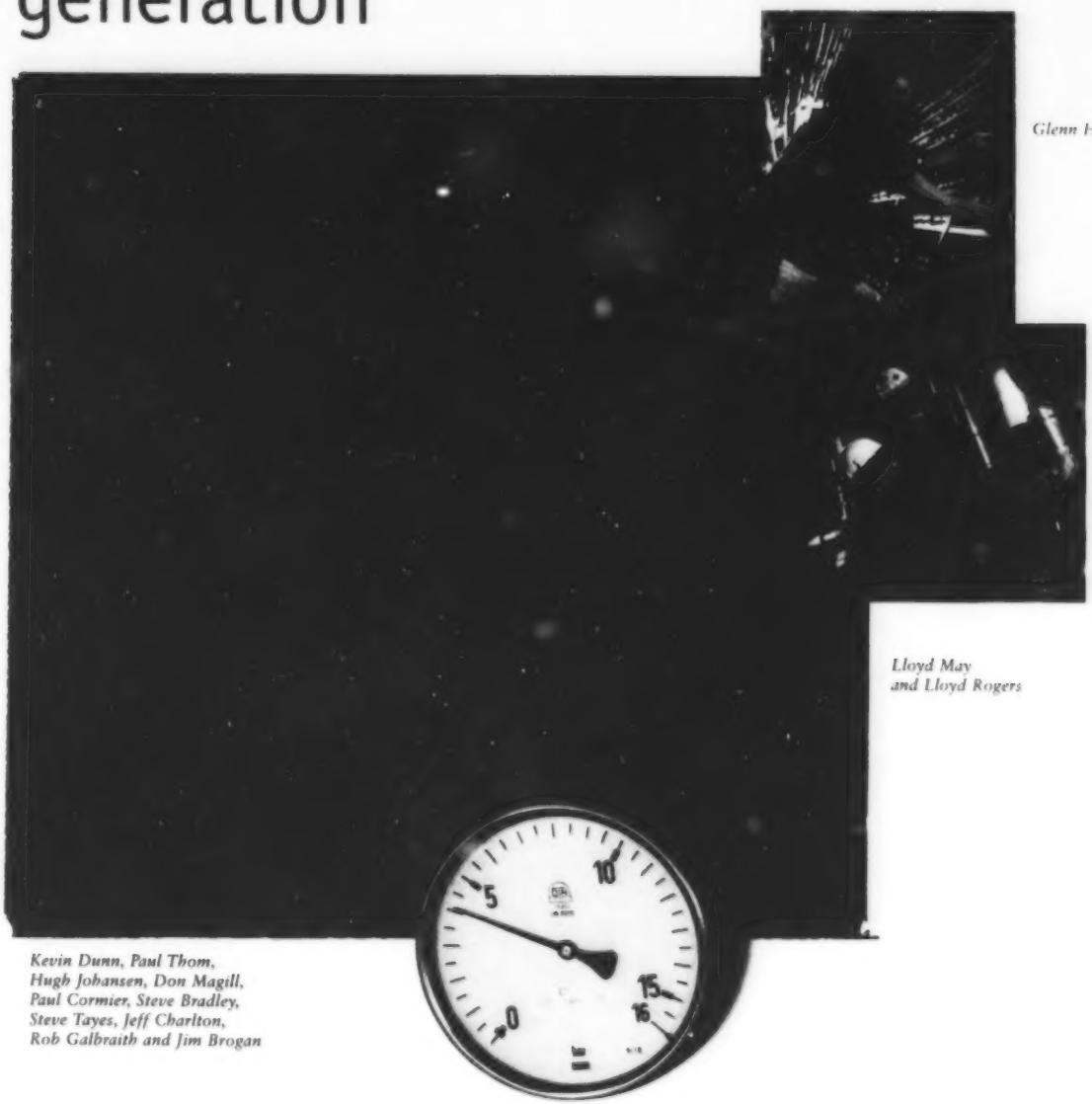
Business Objectives

- meet reliability targets
- champion employee and equipment safety
- manage operating and capital expenses
- ensure environmental compliance
- continue business unit development

Strategies

- emphasize staff retraining, attrition and workforce flexibility to achieve desired staffing levels
- balance costs and unit availability to determine optimal level of maintenance
- prepare for competition in generation by costing ancillary services, pricing energy and capacity for transfer charging, and developing bulk marketing capabilities
- utilize performance indicators — safety, capacity, expenses, environment, availability
- intensify effective, direct communication
- implement business process improvements
- strive towards consistency with ISO 14000

generation



Glenn Hubbard

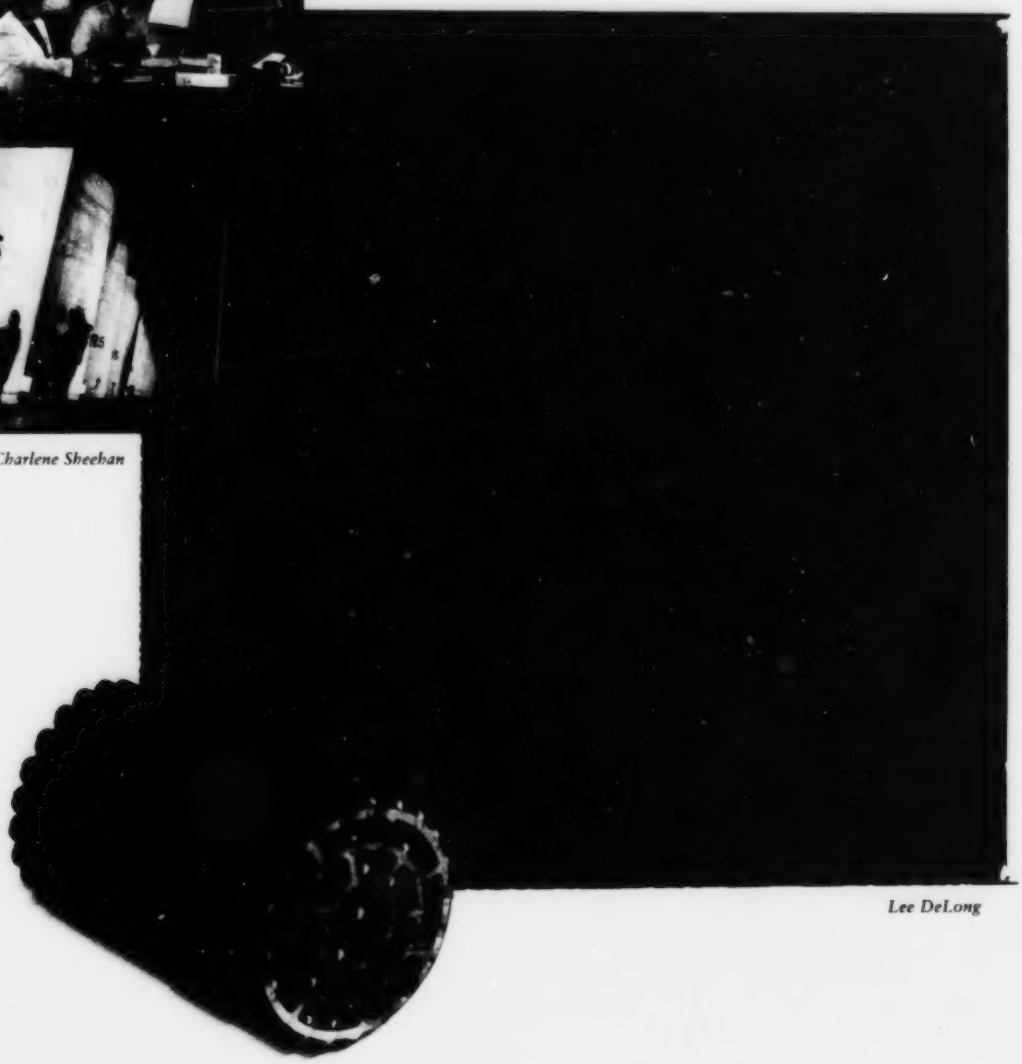
Lloyd May and Lloyd Rogers

Kevin Dunn, Paul Thom, Hugh Johansen, Don Magill, Paul Cormier, Steve Bradley, Steve Tayes, Jeff Charlton, Rob Galbraith and Jim Brogan

nuclear

Carol Arbeau, Dave Wilson, Mike Gay, Bill Pilkington and Frances Lipsett

Charlene Sheehan



Lee DeLong

Business Objectives

- consistent, predictable station operation
- retention of operating licence
- managed work processes
- safety, quality and efficiency
- staff training and succession planning

Strategies

- sufficient human resources
- enhanced communications
- improved safety and quality (conduct of work, supervisory effectiveness, safety awareness)
- improved work processes (technical and maintenance, work management, work permitry, work plans)
- active plant advisory committee
- beneficial external advisory group

Consistent practices — greater reliability. The keys to Point Lepreau's performance improvement are effective practices in safety, quality and work methods.

The Point Lepreau nuclear generating station operated at an 84 per cent capacity factor and exceeded the target for the year. This higher-than-forecasted performance level increased net benefits to the Corporation by $2.6 million. While the late spring maintenance outage was longer than planned, the station did return to the more economic spring outage cycle and the unit ran continuously for the remainder of the year. A spring outage helps to minimize production costs because maintenance is performed when low-cost hydro power is most abundant.

Station staff achieved two licence renewals from the federal regulator. In October, the Atomic Energy Control Board approved a two-year reactor operating licence, conditional on six-month reporting on the progress of station performance. This was also a condition of the previous license and past progress reports have been acceptable to the regulator. In January the AECB granted a solid radioactive waste management facility licence, again for a two-year period.

The performance improvement program, targetting safety, quality and work practices, continues to be a station priority with measurable results being achieved. Staff have made progress in improving operating documentation, reducing unplanned incidents, lessening the severity level of events, and in decreasing corrective action backlogs. Three new systems — for non-maintenance work management, problem identification/corrective action, and maintenance work scheduling — are being implemented.

Senior management personnel were recruited during the year, introducing additional expertise to the production, technical and business areas. Other organizational changes focused on:

- 90-day work plans integrated with departmental work
- objectives and cultural change initiatives targetting clarity of purpose
- team performance and interpersonal relations

A comprehensive planning process will be used to identify and resource station priorities for annual and five-year business plans. These plans will address plant configuration activities, human resource issues, station performance, regulatory requirements, and the competitive generation market. New performance measures have been established in key effectiveness areas including personnel and operational safety, regulations, contingency planning, operating experience feedback and human performance.

Point Lepreau's management program for ageing facilities is a systematic review of station structures, systems and components to identify ageing mechanisms that could result in the degradation of the station's safety and operating performance. In co-operation with Atomic Energy of Canada Ltd. and Hydro-Québec, life assessment studies on the concrete containment building and the reactor structure were completed and are currently being reviewed.

The World Association of Nuclear Operators conducted a peer review at Point Lepreau, comparing station work practices, processes and standards with international benchmarks for nuclear power plants. The review found that continuing improvement in safety performance at the station requires increased emphasis on establishing standards, clearly explaining work expectations, and providing positive supervision. Remedial actions will focus on greater field presence by management and supervisors to improve staff performance.

As one of the first generation of CANDU-6 nuclear reactors, Point Lepreau has the opportunity to benefit from an advanced new fuel bundle configuration that can deliver greater operating and safety margins. Two channels of Canflex fuel have been loaded into the reactor for a demonstration irradiation. Canflex is a joint development of Atomic Energy of Canada Ltd. and the Korean Atomic Energy Research Institute.

Traditional dependability — new strengths. Greater autonomy and accountability are growing strengths for T&D as "a new approach to business" supports high standards for safe and reliable service.

Transmission & Distribution's newly dedicated expertise in finance, human resources and information technology have strengthened the business unit by grouping functional responsibilities required for direct performance accountability.

A labour-management committee developed an ambitious safety compliance program currently being implemented throughout the business unit. The protective equipment test lab was modernized to realize improved safety from better equipment and work procedures.

The opening of NB Power's transmission system for "out" and "through" service requires assurance of comparable transmission access. This necessitates separation of generation, marketing and transmission functions and the setting of prices for services provided — whether to industrial customers, merchant plants or other NB Power business units.

The unbundling of generation and marketing functions will see the transfer of generation dispatch planning to a new bulk marketing group in Generation. A new code of conduct on non-discriminatory transmission access will govern the relationship between T&D, Generation and merchant generation activities, while a governance system will act as a forum on internal jurisdictional issues. Unbundling also necessitates development of pricing mechanisms for capacity and energy transactions and ancillary services. Work is also underway on market pricing of energy, both for internal transfer pricing and as a competitive benchmark.

T&D staff are actively participating in key industry developments. Since NB Power provides the only interconnection to northern Maine, it is participating in that State's discussions on retail market operations, currently scheduled to begin in April 2000. Staff are also contributing to the transformation of the North American Electric Reliability Council into the North America Electric Reliability Organization, which will have the expanded mandate for establishing electricity system operations and reliability criteria in a competitive environment.

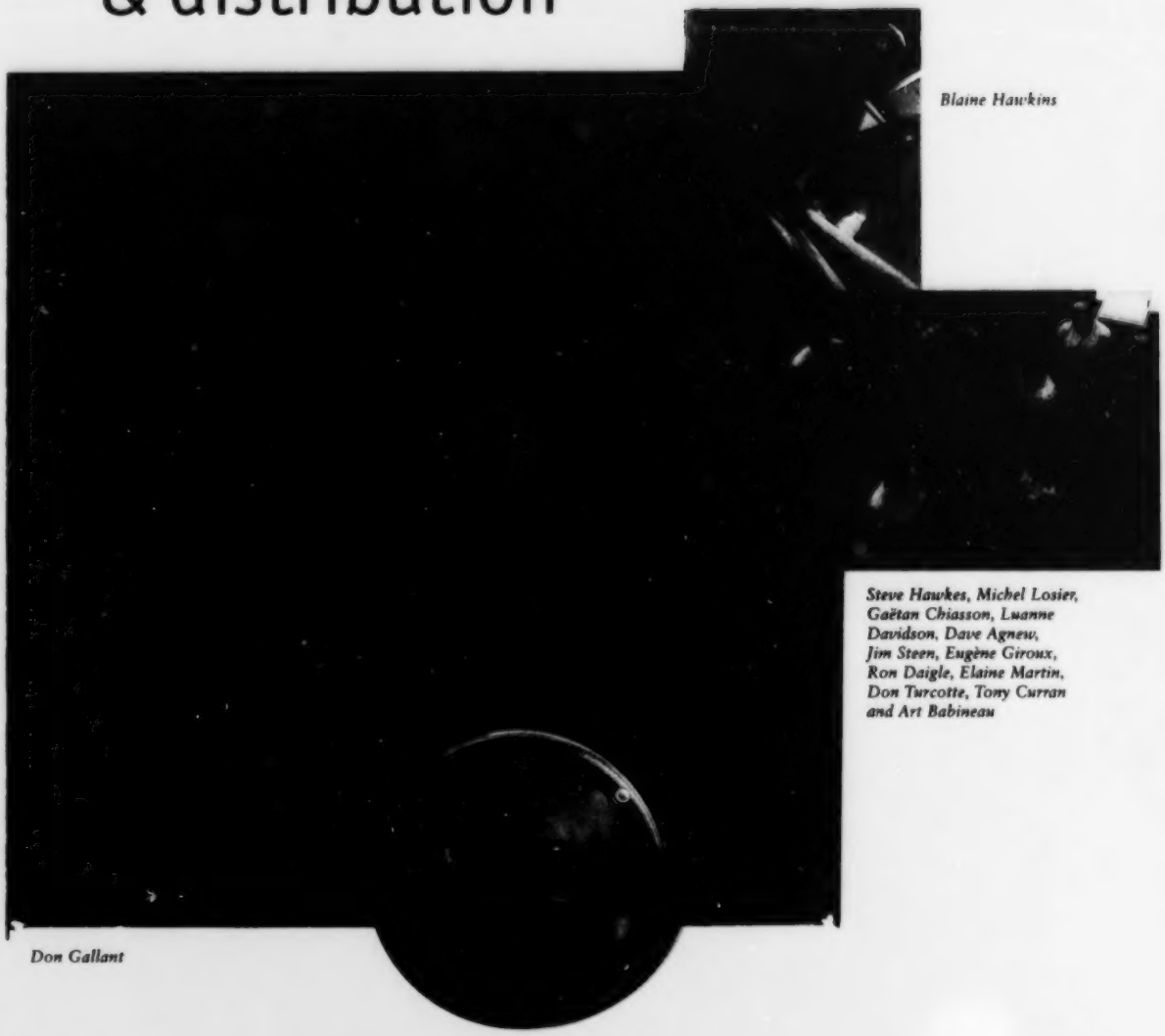
A modern, Year 2000 compliant metering system was installed, incorporating the added capability to measure other products such as natural gas or water. New remote meter-reading capability will assist in accessing hard-to-read meters and rural route management. The meter servicing shop is being accredited by Measurement Canada so it can perform advanced calibration and evaluation work.

A major computer/telephone integration initiative is moving ahead and will equip staff in the call centres with leading-edge systems. A new digital microwave network was installed in the Saint John area to replace a vintage analog system. This new, asynchronous transport mode system is crucial for reliability, interconnection stability and protection of the transmission network.

A new transmission line between Norton and Courtenay Bay will respond to growing load and the repowering of the Courtenay Bay generating station while simultaneously reinforcing system reliability in the Saint John area. The Irving Oil refinery expansion required the rerouting of a double circuit 138 kV transmission corridor and the construction of a new switchyard.

Renewing the fleet with new trucks and modern equipment is an investment in service and safety. A newly implemented multi-year vehicle budget allows for efficiency in determining field needs, tendering and assuring timely delivery of equipment.

transmission & distribution



Blaine Hawkins

Steve Hawkes, Michel Losier, Gaëtan Chiasson, Luanne Davidson, Dave Agnew, Jim Steen, Eugène Giroux, Ron Daigle, Elaine Martin, Don Turcotte, Tony Curran and Art Babineau

Don Gallant

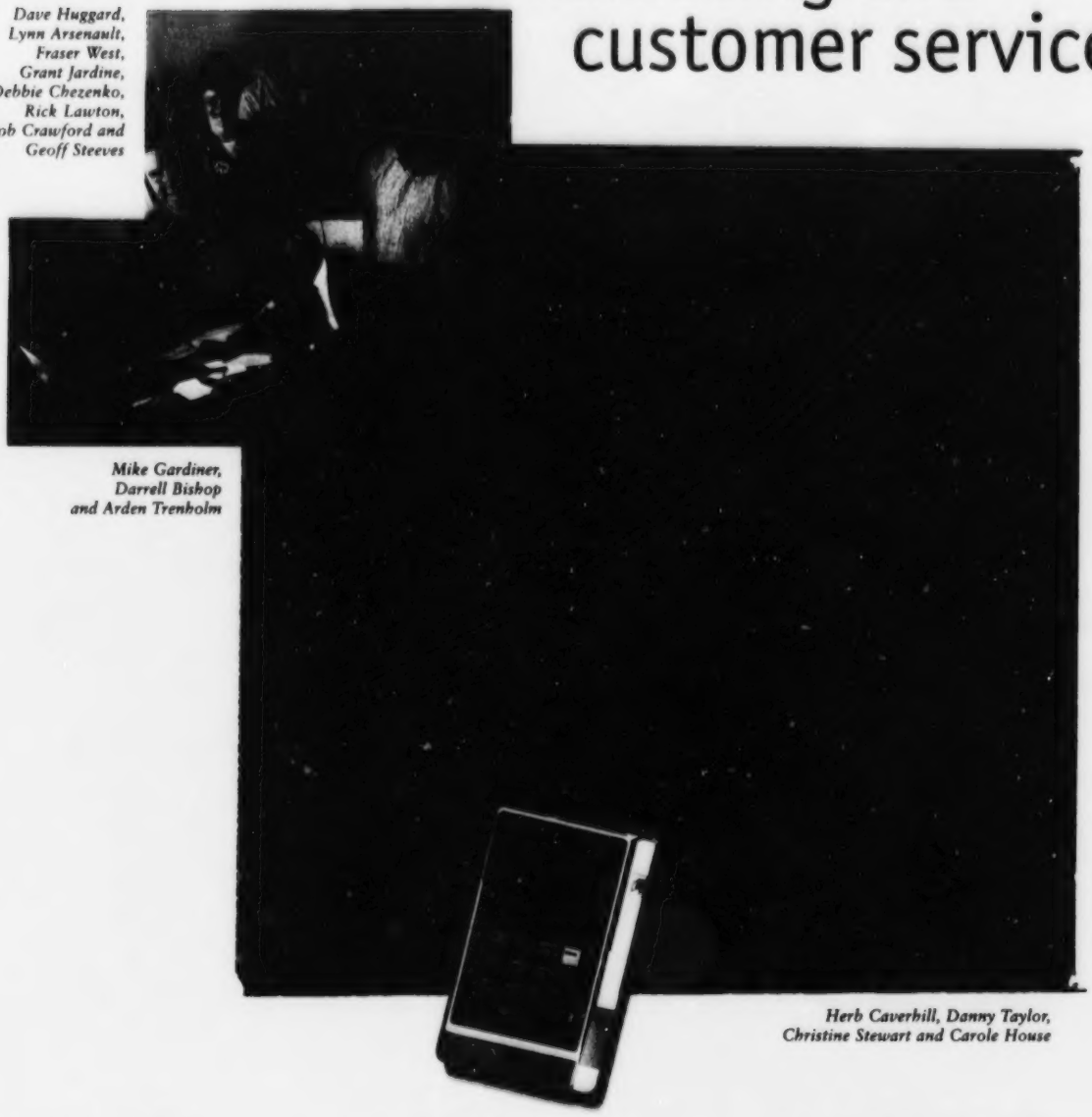
Business Objectives

- provide a safe environment for staff and public
- maintain a reliable supply of electricity for all customers
- ensure exceptional levels of customer service
- protect the environment
- achieve operational efficiency

Strategies

- always strive towards a safety record that is "best in class"
- adopt the principle that "a business approach is everyone's business"
- improve efficiencies through communication, process management and leveraging technological benefits
- create an environment that challenges employees to reach their full potential through training and development
- maintain environmental responsibility

marketing and customer service



Dave Huggard, Lynn Arsenault, Fraser West, Grant Jardine, Debbie Chezenko, Rick Lawton, Bob Crawford and Geoff Steeves

Mike Gardiner, Darrell Bishop and Arden Trenholm

Herb Caverhill, Danny Taylor, Christine Stewart and Carole House

Business Objectives

- **further develop the business unit**
- **better understand product and customer profitability to prepare for price competition**
- **enhance the "easy to do business with" service strategy**
- **introduce new products and services**
- **maximize interconnection benefits**
- **enhance credit and collection effectiveness**

Strategies

- **develop a marketing database and segmentation studies for key customer groups**
- **implement a new customer care system and state-of-the-art technology in the call centres**
- **further improve payment agency capabilities with full electronic service and debit card payment**
- **measure and manage customer service performance**
- **use the capabilities of the new customer care system to more proactively manage the collection process**
- **enhance service offerings of the electric water heater program**
- **exploit natural gas marketing opportunities**
- **maximize near-term export margins and facilitate the development of merchant gas plants to secure transmission revenues for the future**

More presence — greater customer attention. This business unit is getting closer to customers with a focus squarely on market intelligence and a better understanding of customer needs.

Export marketing strategies that capitalized on a robust New England economy and the relatively low cost of oil have contributed to the highest level of export sales in the 1990s. Marketing and Customer Service responded quickly to deregulation of New England's energy markets by developing new customer relationships and energy products. These included physical energy swaps and options and capacity sales to new customers. Agreements ranging from the short-term sale of energy to Hydro-Québec to a twenty-two year export contract with a New England utility were successfully concluded.

NB Power's presence throughout New Brunswick has been re-established with the opening of customer service counters in eleven areas. More staff, increased training and better technology helped call centres exceed their service targets. Additionally, executive account coverage has been established, with each member of NB Power's executive taking responsibility for key business customers.

A new customer information system will be the digital underpinning of the "Easy To Do Business With" service strategy. A joint project between Marketing, Business Information Systems and T&D, Customer Focus '99 will see the migration of over 300,000 customer accounts to SAP's new customer care system for account management and billing. With implementation scheduled for the summer of 1999, the new system will allow service agents to manage the full range of a customer's residential and business account relationships with NB Power. It will also be the foundation for ongoing service enhancements such as unbundled and multi-product billing.

An energy advisor was added to the call centres to provide immediate answers to customers with energy questions. A mid-winter advertising campaign advised customers on important safety issues related to stand-by generators. The computer/telephone integration technology upgrade will enhance call centre performance and customers will be offered new self-service options on a 24 hours-a-day, 7 days-a-week basis.

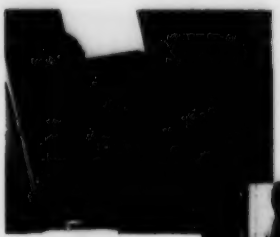
Customer service at NB Power's on-line payment agency network is being improved by enhanced training, performance management and a computer upgrade program. Customers can now pay their account using debit cards as a result of a payment agency upgrade undertaken with NBTel. This project resulted in a technological "first" — for the first time in Canada, a customer is able to make a debit card payment to more than one company using the same PIN pad.

NB Power's customers continue to enjoy electricity rates that are among the lowest in Atlantic Canada and north eastern North America. These low rates are a major cost advantage for industry and business in New Brunswick. In recent years, Marketing and Customer Service has implemented new pricing products to meet the requirements of large industrial customers. Pricing innovation will be of growing importance as electricity markets deregulate over time and Marketing is working to better understand the requirements of customer groups through market segmentation and profitability studies.

Residential arrears have been reduced to the level of three years ago by working one-to-one with customers experiencing payment difficulties. Proactive measures, which alert customers to potential billing issues, included new direct mail campaigns for fast, cost-effective early collection notifications.

corporate services

Corporate perspective — key support. Corporate Services improves NB Power's performance by delivering internal services aligned with business unit goals and strategies.



Susanne Elhadi and Mike Mockler

Michael Wilson-Smith and Diane Robichaud

Year 2000 Readiness — Engineering and Technical Services

Engineering and Technical Services provided co-ordination of the corporate-wide effort for Year 2000 readiness. The Year 2000 readiness program began in 1997 and is on schedule for completion in September 1999, at which point all critical systems and equipment will be Year 2000 ready.

The comprehensive readiness program has involved oversight activities involving the board of directors, the executive, a corporate advisory group and external reviewers. Activities focused on a thorough inventory and analysis program, compliance work and a detailed business continuity program. The readiness program has provided the greatest degree of confidence possible that power will continue to flow on and after January 1, 2000.

The continuity program ensures that in any unforeseen circumstances, power will be restored quickly and efficiently and business processes will continue to function. The preparations have involved extensive consultation with NB Power's customers and other utilities interconnected with our system.

Brent Corey, Kevin Calhoun and Rory Hynes

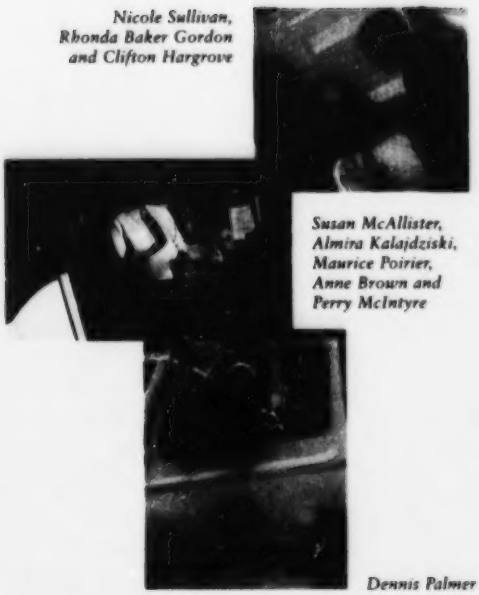
Business Information Systems

Recognizing the increasing role information technology plays in helping realize business benefits, the Business Information Systems division continued its realignment and hiring program to meet individual business unit requirements. Newly established enterprise positions and the development of an IT project delivery methodology aim to maximize benefits from investments. The information technology governance process has allowed for greater co-ordination of IT investments and strategies, while retaining the advantages of business unit ownership of process improvements.

BIS staff were involved with 250 projects during the year, with the Year 2000 readiness program and implementation of SAP's customer care system requiring major technical support. The company-wide infrastructure upgrade saw installation of new servers and 1,900 desktop computers to provide business units with the versatility of a flexible digital nervous system that meets their needs while lowering corporate technology costs.

Business Objectives

- **provide strategic counsel to the business units**
- **provide expert services to business units**
- **efficiently and effectively support business unit operations**



Nicole Sullivan, Rhonda Baker Gordon and Clifton Hargrove

Susan McAllister, Almira Kalajdziski, Maurice Poirier, Anne Brown and Perry McIntyre

Dennis Palmer

Finance

The Finance Division was reorganized in 1998/99, establishing strong controllership in each of the business units while maintaining a central capability for corporate reporting, co-ordination and compliance functions. The establishment of a business unit controllers council created a forum to synergize business unit focus with overall corporate financial management. Implementation of Hyperion Pillar provided a tool to improve planning, analysis and budgeting capabilities. Heightened focus on financial risk management reoriented and strengthened the Corporation's hedging program to mitigate financial risk from foreign exchange, interest rates and oil prices. Internal audit services were outsourced to bring greater focus on risk management and an improved control framework in the coming years.

Corporate Planning

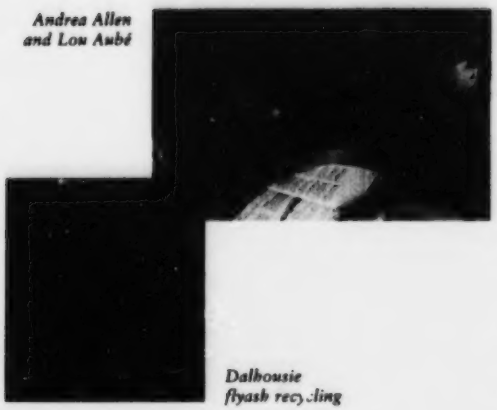
In accordance with the emerging competitive environment, Corporate Planning provided strategic counsel on deregulation, natural gas utilization, transmission tariffs and functional unbundling of Generation, Transmission & Distribution, and Marketing and Customer Service. Regarding the latter, Corporate Planning is working with the business units to develop a code of conduct and governance process for the operation of the transmission system, as well as establishing transfer pricing mechanisms between units.

Public Affairs

An emerging competitive environment requires that NB Power adopt a modern corporate image with a unified look and bolder public presence — in short, new tools for a new era. A visual identification program, managed by Public Affairs, is taking steps to better communicate NB Power's progress, values and strengths. This fresh image plays an important role in consolidating market position and establishing a tone for the ongoing dialogue with customers. The newly refined logo and bilingual uniformity are symbolic of a more connected and effective company — a company seen everywhere in New Brunswick. A supporting advertising campaign highlights dependability and the commitment to being the energy supplier of choice.

Human Resources and Administration

Human Resources and Administration works with the business units to foster a supportive work environment. In conjunction with labour, a focus on programs such as conflict prevention and resolution, primarily through joint labour management committees, has resulted in enhanced employer/employee relationships. Elsewhere, first agreements between NB Power and IBEW Local 2309 - Engineering and Operational Supervisory were negotiated, using an interest-based bargaining strategy.



Andrea Allen and Lou Aubé

Dalhousie flyash recycling

Striving to lead the industry in safety has resulted in a strengthening of the joint health and safety committees; an expansion of the workplace risk management services program; and the introduction of a new safety recognition program. With 280 days lost in 1998/99 — compared to 530 the previous year — there has been a marked improvement in the accident severity record. This pays dividends in both worker safety and company finances, with NB Power's worker compensation rate being reduced by 25 per cent.

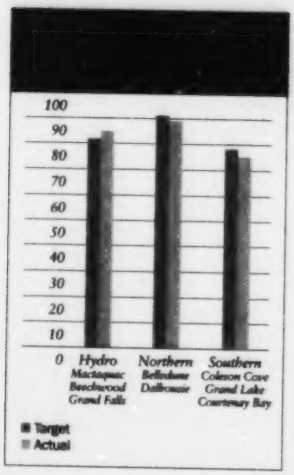
Employee wellness programs concentrated on prevention, health promotion and early intervention. NB Power's Employee and Family Assistance and Active Living and Lifestyle programs are aimed at improving employee attendance and reducing corporate health-care costs. Enerflex — the new flexible benefits program — allows employees to allocate benefits according to their personal needs, at the same time reducing the rate of increase of corporate health-care costs. A leadership development program links business objectives with leadership practices. Elements include an assessment of individual management developmental needs and a program for professional development.

Environment

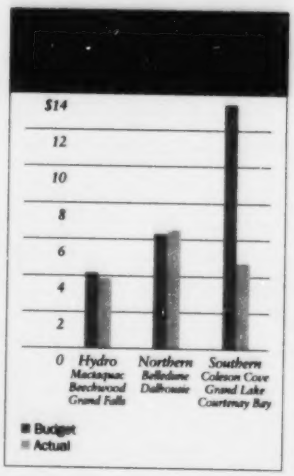
NB Power's third annual *Environmental Performance Report* is a comprehensive public resource that provides information on environmental issues. During the fiscal year, generating stations operated in accordance with regulatory requirements; sulphur dioxide emissions and particulate emissions rates were below regulated limits; and reported releases of petroleum products dropped. New programs have reduced waste going to landfill, and surplus assets valued at over $1.4 million were sold for recycling and reuse. A gap analysis was conducted at Transmission & Distribution's Central Region and the Corporation's Environmental Management System improvement program progressed. A new Environmental Management System manual will serve as the complete guide for the generating stations.

NB Power measures the performance of its business units. Tracking key performance indicators allows management to evaluate the results from programs and activities and make adjustments as required.

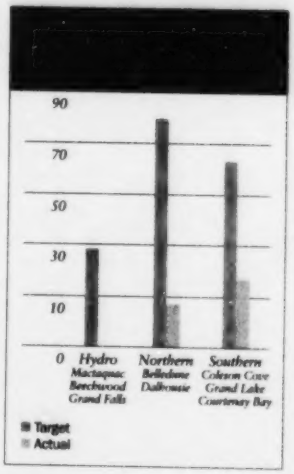
generation



The percentage of time, incorporating planned and unplanned outages, a unit is available to generate electricity.

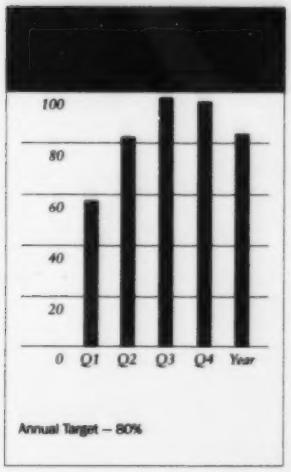


The budgeted versus actual operations, maintenance and administration costs ($/MWh) measures efficient resource management.

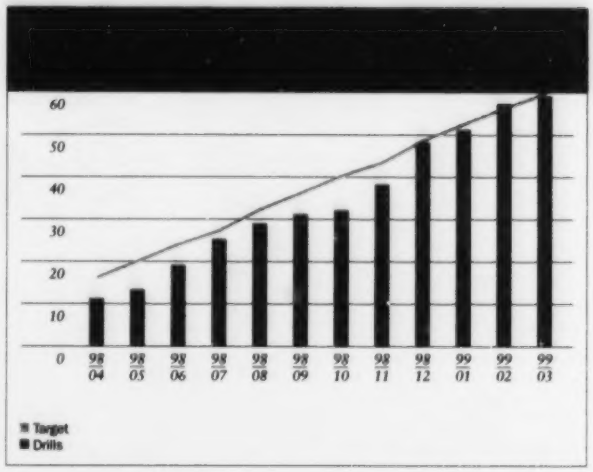


The number of days lost due to injury targetted at an average 1/4 day per employee/year.

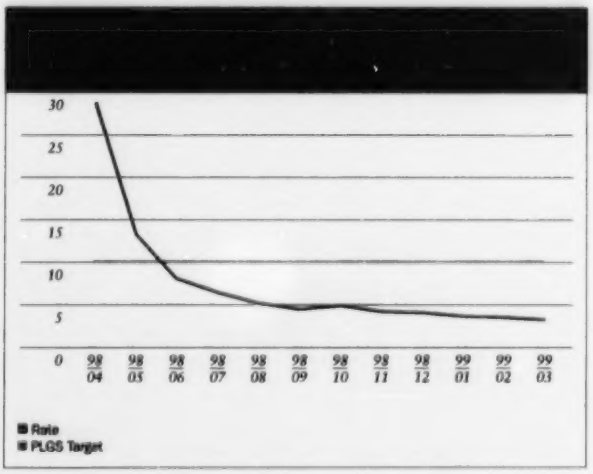
nuclear



Capacity factor is the actual generation as a percentage of maximum generation.

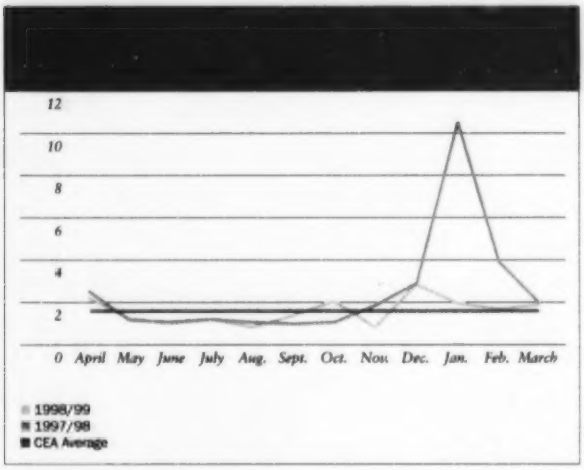


Contingency drills for chemical, medical, fire-radiation alerts and emergency events completed versus the number of drills scheduled.

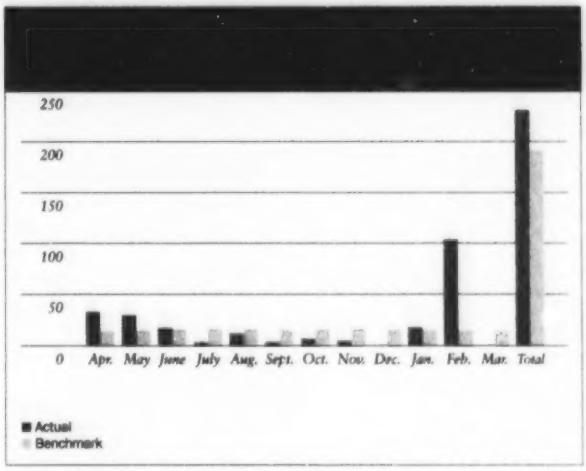


The number of days lost due to injury per 200,000 hours worked.

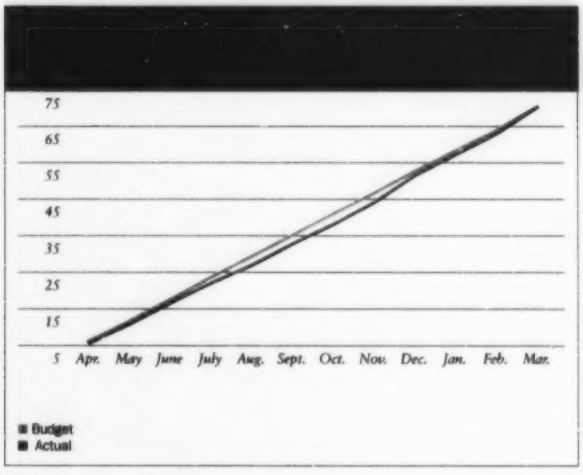
transmission & distribution



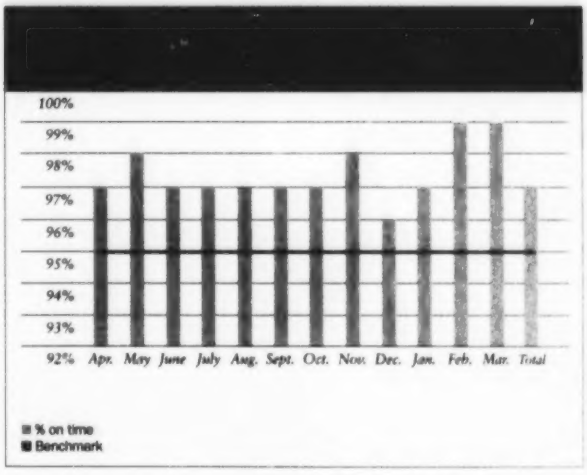
The customer average interruption duration, including planned and unplanned interruptions, is an industry gauge of system reliability. (A significant ice storm occured in January 1998.)



Number of days lost due to injury per month.

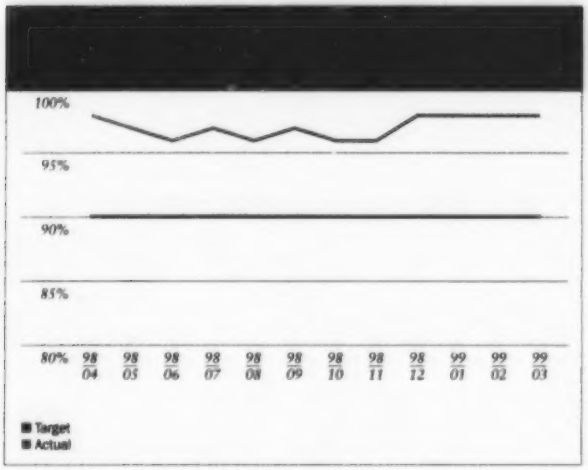


The operations, maintenance and administration budget versus actual costs.

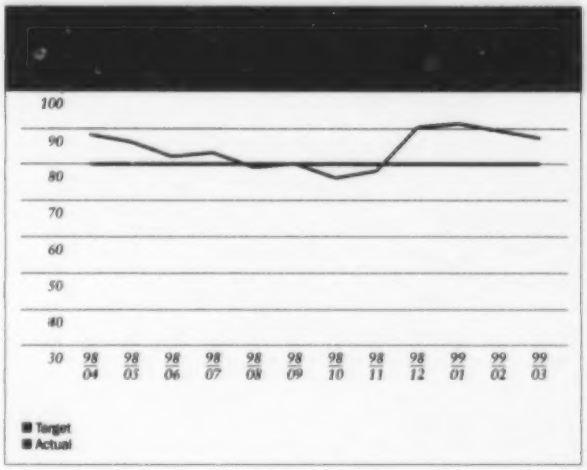


Work orders completed on time, as a percentage of work orders filed, reflects timeliness of service to customers.

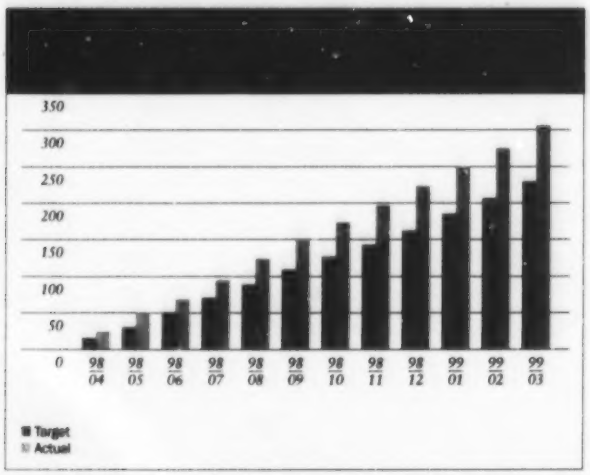
marketing & customer service



Staff at the customer service call centres in Fredericton, Shediac, Grand Falls, Tracadie and Dalhousie fielded 435,519 customer inquiries during 1998/99. Their performance target is to answer 90 percent of incoming calls.



Another performance target is to answer 80 percent of incoming calls within 20 seconds.



Effective export marketing strategies, the robust New England economy and the low cost of oil have contributed to high levels of export sales.

98 Financial Review

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HIGHLIGHTS

(in millions of dollars)	*1998/99*	*1997/98*	*1996/97*
Financial Performance			
Income (loss) before transfers and write-off	**$ 18**	$(43)	$(87)
Income (loss) before write-off	**27**	(21)	(19)
Net loss	**423**	21	19
Operating cash flow	**247**	163	129
Free cash flow	**189**	67	68
Reduction in net debt	**$123**	$ 44	$ 53
Financial Ratios and Percentages			
Operating margin	**30%**	26%	25%
Operating cash flow/capital expenditures	**3.80x**	2.76x	1.87x
Debt/capital	**100%**	89%	89%
Interest coverage	**1.09x[1]**	0.93x	0.94x

[1] *Before write-off of deferred charge.*

OVERVIEW

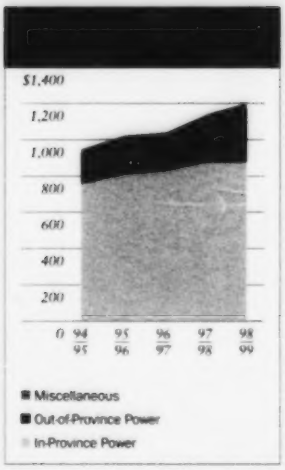
Business operations improved steadily during the year and resulted in a significant improvement in NB Power's financial results. Net income before write-off was $27 million compared to a net loss of $21 million the previous year and debt was reduced for the third consecutive fiscal year.

Income before write-off and transfer from a reserve account was $18 million in 1998/99, compared to a net loss of $43 million in the previous fiscal year, an improvement of $61 million. The transfer from a reserve account was $9 million in 1998/99, compared to $22 million the previous year. This was the final year of draw downs from reserve accounts.

The $450 million deferred charge relating to the projected life of the Point Lepreau nuclear generating station, identified last year, has been charged against income for 1998/99.

(in millions of dollars)	*1998/99*	*1997/98*	*1996/97*
Income (loss) before transfers and write-off	**$ 18**	$(43)	$(87)
Transfers from reserves	**9**	22	68
Write-off of deferred charge	**(450)**	—	—
Net loss	**$ 423**	$ 21	$ 19

The Corporation demonstrated continued strengthening of financial performance in key areas. Cash flow from operations increased to $247 million, compared to $163 million in the previous year. Free cash flow increased to $189 million in 1998/99 from $67 million in 1997/98. Lastly, debt reduction was $123 million in 1998/99, compared to $44 million the previous year, thereby bringing the three-year debt reduction total to $220 million.



The marked improvement in financial performance was driven by increased benefits from export sales and the lower cost of fuels and purchased power for in-province generation. The Point Lepreau nuclear generating station achieved a capacity factor of 84%, exceeding planned levels and contributing to the effective management of energy costs for the Corporation. Lower oil prices and improved hydro conditions were other major factors in achieving gains.

Financial performance was moderated by two factors. First, in-province revenues were significantly below forecast, primarily due to the exceptionally warm weather during winter months. Second, continued weakness in the Canadian dollar resulted in a negative variance from forecast.

Operating Results 1998/99

Revenue Growth

In-Province Revenue

In-province revenue totalled $872 million in 1998/99, compared to $869 million in 1997/98, an increase of $3 million or 0.3%. This modest increase in revenues was the result of several factors of which the most significant were:

- a rate increase of 2.9%, implemented October 1, 1998, caused revenues to increase on a year-over-year basis by $24 million
- unseasonably warm winter months resulted in a load decrease of 254 GWh or $15 million in revenue

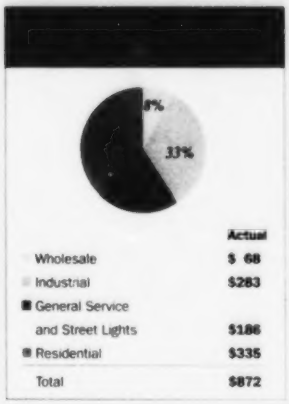
In-Province Revenue by Sector

Residential revenue of $335 million was $1 million or 0.3% below the 1997/98 revenue of $336 million. This sector was most affected by the weather, finishing the year $16 million below plan. The Corporation has one of the highest heating loads in the country, supplying electricity for home heating to about 60% of all homes and 90% of new homes.

General Service revenue of $170 million was $2 million or 1.2% higher than the $168 million revenue in 1997/98. NB Power serves over twenty-three thousand customers representing hospitals, schools and universities, restaurants and similar businesses.

Wholesale revenue of $68 million, from contracts with two municipalities in New Brunswick, was $1 million or 1.4% below 1997/98 revenue of $69 million resulting from unseasonably warm winter weather.

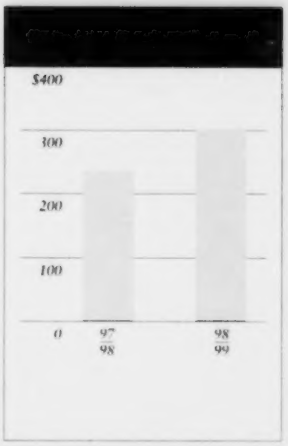
Industrial revenue of $283 million was $3 million or 1.1% higher than 1997/98 revenue of $280 million. This increase was lower than forecast primarily because of lower loads in the mining and pulp and paper sectors versus the previous fiscal year. NB Power serves over 1,800 industrial accounts, of which approximately 40 are served directly from the transmission system. The five largest customers represent approximately 50% of industrial revenue and 15% of in-province revenue.



Out-of-Province Revenue

Out-of-province revenue was $304 million in 1998/99 compared to $244 million in the previous year. This represents an increase of $60 million or 24.6%. The profit margin achieved on these sales increased by $26 million versus 1997/98. Exports to New England accounted for 46% of out-of-province margins, reflecting demand created by warmer summer weather and unavailability of nuclear units in that region. This level of exports is expected to continue in the near term though the introduction of Sable Island natural gas to New England will eventually erode benefits from export sales.

NB Power opened access to its transmission system for "out" and "through" transmission effective January 1, 1998, and has implemented a tariff for electric utilities wishing to use the transmission system. Initial revenues from the tariff have been minimal because of prearranged contracts for traditionally packaged export sales.



Expenses

Fuel and Purchased Power

Costs for fuel and purchased power in 1998/99 were $374 million compared to $404 million in 1997/98, a decrease of $30 million or 7.4%. This net decrease in fuel and purchased power costs represents:

- a decrease of $64 million to supply in-province sales
- an increase of $34 million to supply out-of-province sales

Total Costs of Fuel and Purchased Power

(in millions of dollars)	*1998/99*	*1997/98*	*Increased Cost (Savings)*
For In-Province Sales	**$203**	$267	$(64)
For Out-of-Province Sales	**171**	137	34
Total	**$374**	$404	$ 30

Fuel and Purchased Power Costs for In-Province Sales

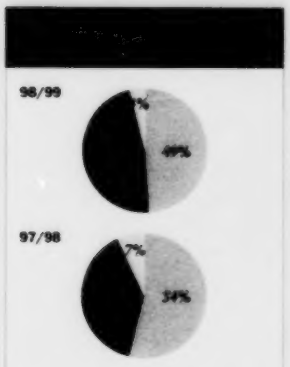
Fuel and purchased power costs for in-province sales decreased by $64 million versus the previous fiscal year. This was mainly attributable to lower fuel prices and an improved generation mix for NB Power:

- a decrease of $43 million resulting from lower fuel prices
- a decrease of $26 million due to improved generation mix
- a net increase of $5 million caused by other factors

Lower fuel prices for all energy sources lead to a decrease in expenses of $43 million. The steep drop in heavy fuel oil prices was the major reason for this decrease. Prices for heavy fuel oil declined from an average price of $14 US per barrel in 1997/98 to less than $10 US per barrel in 1998/99, resulting in a cost decrease of $35 million. Fuel price decreases were also experienced in imported and local coal and Orimulsion®.

The improvement in generation mix saved NB Power $26 million versus the previous fiscal year. This resulted from higher production in nuclear and hydro operations. The more that can be produced from nuclear and hydro, the less NB Power must rely on more expensive thermal generation and purchases of power. The gain in nuclear operations versus the previous fiscal year resulted in savings of $20 million of which $18 million was for in-province use. The gain from hydro operations of 340 GWh resulted in savings of $8 million versus the previous fiscal year.

Other factors had a net adverse impact of $5 million on fuel costs for NB Power. The Canadian dollar weakened in 1998/99 to an average trading level near 66¢ US, compared to 71¢ US in the previous fiscal year. This had an impact of $16 million on fuel costs since the majority of fuels are priced in US dollars. This cost was partially offset by other savings, most notably in lower generation requirements and purchased power needs, saving the Corporation approximately $11 million.



(GWh)	98/99	97/98
Thermal	**7,007**	7,864
Nuclear	**4,249**	3,360
Hydro	**2,677**	2,337
Purchases	**595**	1,054
Total	**14,528**	14,615

The impacts from lower-priced fuels, improved generation mix and other factors are demonstrated in the table below.

Fuel and Purchased Power For In-Province Sales

(in millions of dollars)	*1998/99*	*1997/98*	*Variance*	*Energy (GWh) Generated*	*GWh Variance Over 1997/98*
Thermal	**$165**	$216	$(51)	7,007	(857)
Nuclear	**6**	3	3	4,249	889
Hydro	**0**	0	0	2,677	340
Purchases	**32**	48	(16)	595	(459)
Total	**$203**	$267	$(64)	14,528	(87)

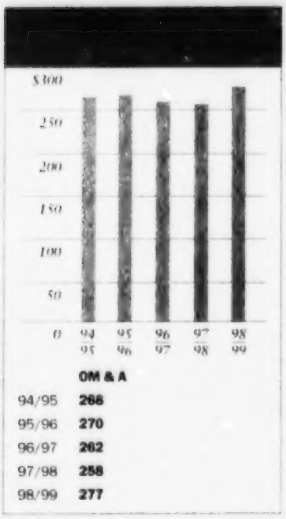
Fuels and Purchased Power Costs For Out-of-Province Sales

Out-of-province revenues increased by $60 million in 1998/99, reflecting increased demand mainly in New England. Fuels and purchased power costs to supply this demand have increased by $34 million, resulting in an improvement of $26 million in the net margin on out-of-province sales.

Fuel and Purchased Power For Out-of-Province Sales

(in millions of dollars)	*1998/99*	*1997/98*	*Variance*	*Variance %*
Energy (GWh) sold	**7,048**	4,771	2,277	48%
Out-of-Province revenues	**$304**	$244	$60	25%
Cost of fuel and purchases	**171**	137	34	25%
Out-of-Province margin	**$133**	$107	$26	24%

The fuel and purchased power cost increase of $34 million represents an increase of 25% versus the previous year. Energy sold increased by 48% over the same period. Lower oil prices were a major factor in minimizing the costs associated with the higher level of energy produced.



OM&A Expenses

Operations, maintenance and administration expenses were $277 million in 1998/99 compared to $258 million in 1997/98. This represents an increase of $19 million or 7.4%, primarily in the following areas:

- investments in the performance improvement program at Point Lepreau
- investments in information systems and technology infrastructure upgrades
- "Year 2000" technology solutions
- increased operating hours at the Coleson Cove generating station

Cost control measures successfully contained general OM&A expenses, partially offsetting the increased cost of the strategic investments in nuclear operations and information technology.

Depreciation, Amortization & Decommissioning

Depreciation, amortization and decommissioning amounted to $189 million in 1998/99 compared to $177 million in 1997/98, an increase of $12 million or 6.8%. The major factor affecting this increase was an accounting change for depreciation of the nuclear station. (See note 2. a) in the financial statements.)

Finance Charges

Finance charges totalled $346 million in 1998/99 compared to $344 million in 1997/98. This increase of $2 million or 0.6% over the previous year reflects:

- $12 million increase as the Canadian dollar weakened from an average of 71¢ US in 1997/98 to 66¢ US in 1998/99
- $10 million decrease resulting from the cumulative impacts of the debt reduction program

Transfers

The Corporation eliminated the fuel channel removal account, the last of its reserve accounts. The remaining balance of $9 million was credited to net income during the year.

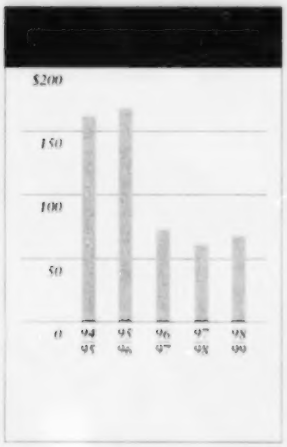
Deferred Charge Write-Off

In 1997/98, NB Power engaged the consulting firm Hagler Bailly of Arlington, Virginia to undertake a comprehensive analysis of the short- and long-term technical and economic factors affecting the future operation of the Point Lepreau nuclear generating station. The study indicated that although operation of the facility is economic in the near term, a major refurbishment of the plant will be required sometime around the year 2008. A decision to refurbish, giving a further 25 years life, or shutdown will be made sometime over the next four to six years as operational circumstances warrant and uncertainty reduces.

The Corporation's depreciation policy, until 1997/98, was based on the plant continuing to operate until the year 2014. As a result of the study, the carrying value of the plant was reduced by $450 million, representing the portion of the capitalized value of the facility unrecoverable through depreciation prior to either the required refurbishment or shutdown if a decision is made not to proceed with refurbishment. An offsetting deferred charge of $450 million was reported on the balance sheet as at March 31, 1998.

The Corporation committed, in the ensuing year, to either identify a new revenue stream to recover the deferred charge over a future period, or write off the deferred charge against income.

NB Power has written off the deferred charge against income in 1998/99. A number of alternative revenue streams were examined. In the end, an acceptable revenue stream could not be identified.



Capital Expenditures

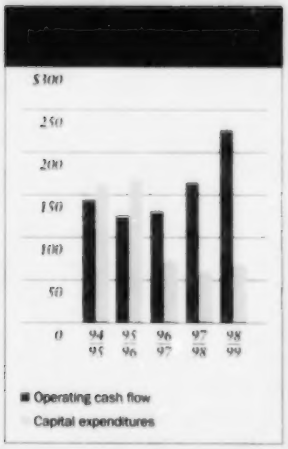
Capital expenditures totalled $65 million in 1998/99 compared to $59 million in 1997/98. The increase was primarily due to investments in information technology.

Operating Cash Flow and Debt Reduction

Operating Cash Flow

NB Power's operating cash flow was $247 million in 1998/99 compared to $163 million in the previous fiscal year, an increase of $84 million or 51.5%. Operating cash flow in 1998/99 exceeded capital spending requirements, enabling NB Power to pay down its debt for the third consecutive year.

(in millions of dollars)	*1998/99*	*1997/98*	*1996/97*
Net income (loss)	**$(423)**	$ (21)	$ (19)
Depreciation and other non-cash items not requiring a cash payment	**670**	184	148
Operating cash flow	**$ 247**	$163	$129



Debt Reduction

Free cash flow was $189 million in 1998/99 compared to $67 million the previous fiscal year[1]. After a balance sheet adjustment for foreign exchange losses, debt reduction was $123 million compared to $44 million the previous fiscal year. The Corporation expects continuing improvement in operating cash flow and debt reduction.

(in millions of dollars)	*1998/99*	*1997/98*	*1996/97*
Free cash flow	**$189**	$67	$68
Foreign exchange adjustment	**(66)**	(23)	(15)
Reduction in net debt	**$123**	$44	$53

[1] *Free cash flow* is the operating cash flow, less capital expenditures, plus customer contributions and changes in working capital, less deferred pensions.

Liquidity

The Corporation maintains approximately 5% of its borrowings as floating-rate debt. Debt maturities in 1998/99 were $22 US million of 5.5% bonds maturing December 1998, and $24 US million of 7.625% bonds maturing March 1999. In December 1998, NB Power exercised call options for early redemption on $75 million of 10.25% bonds due December 2003. NB Power will continue to exercise call options where such action allows rollover of high-coupon debt. At March 31, 1999, debt consisted of:

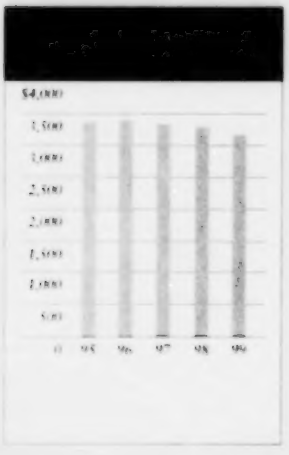
(in millions of dollars)	*1998/99*	*1997/98*	*1996/97*
Long-term debt, net of sinking fund investments	**$3,019**	$3,104	$3,247
Short-term indebtedness	**159**	194	111
Cash and short-term investments	**(7)**	(4)	(21)
Total	**$3,171**	$3,294	$3,337

Risk Management

NB Power actively manages a variety of risks to its business operations.

Financial Sensitivity

Economic Variable	*Sensitivity/ Variance (+/-)*	*Impact Net Income 1998/99 (in millions of dollars)*
Canadian dollar *(US¢)*	US 1¢	$4.5
Interest rate (short-term)	1%	$2.0
Interest rates (long-term)	1%	$2.0
Load growth	1%	$4.0
Oil prices *($US/bbl)*	US$1/bbl	$4.0
Nuclear capacity factor	1%	$1.2



Debt

NB Power's high debt level limits its financial flexibility. New business initiatives are being structured through partnership arrangements in such a way that new debt is not being incurred.

Foreign Currency

NB Power's exposure to the US dollar is being mitigated by a currency hedging program and the rollover of US$ debt into Canadian funds. Approximately 35% of total costs, arising from fuel, purchased power and finance charges, are settled in US dollars. As well, total net debt is affected by foreign currency translation of the Corporation's approximately $660 million US$ debt.

Oil Price Volatility

The Corporation used approximately 9 million barrels of oil during the year to generate electricity. In its efforts to mitigate oil price volatility, the Corporation has an active commodity hedging program. In the future, access to natural gas generation opportunities will further diversify fuel sources and reduce dependency on oil.

Point Lepreau Generating Station

The reliable performance of the Point Lepreau generating station is vital to the financial condition of the Corporation. The station received two licence renewals from the federal regulator during 1998/99. The objective of a multi-year performance improvement program is consistent and predictable performance. Initiatives are underway in the areas of organization, business planning and performance measurement. In addition, a program to proactively address plant ageing issues has been initiated.

Year 2000

NB Power's Year 2000 readiness program began in 1997 and is on schedule for completion in September 1999, at which point all critical systems and equipment will be Year 2000 ready.

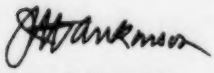
The readiness program has involved oversight activities involving the board of directors, the executive, a corporate advisory group and external reviewers. Program activities centred on a thorough inventory and analysis program, compliance work and a detailed business contingency program to ensure that, in unforeseen circumstances, power will be restored quickly and efficiently. In light of NB Power's strategic position in north eastern North America, business continuity plans involve consultation with other utilities with which we are interconnected.

Management Report

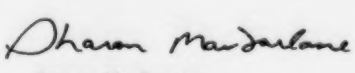
The consolidated financial statements of New Brunswick Power Corporation have been prepared by management in accordance with generally accepted accounting principles as established in Canada. The consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. In management's opinion, the consolidated financial statements have been properly prepared in accordance with the accounting policies set out in the notes to the consolidated financial statements. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management depends upon a system of internal controls to ensure that financial information is reliable and accurate and that assets are properly safeguarded. The controls and related systems are periodically reviewed by internal auditors.

The financial statements have been examined by the external auditors, Deloitte & Touche. Their responsibility is to express a professional opinion on the fairness of management's financial statements. The Auditor's Report outlines the scope of their examination and their opinion.



JAMES F. HANKINSON
President & CEO



SHARON MACFARLANE
Vice President, Finance
& Information Systems

June 1, 1999

Auditor's Report

The Honourable Marilyn Trenholme Counsell, MD
Lieutenant-Governor of New Brunswick
Fredericton, New Brunswick

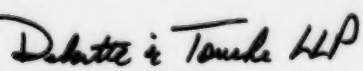
Madam:

We have audited the consolidated balance sheet of New Brunswick Power Corporation as at March 31, 1999 and the consolidated statements of income and retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



CHARTERED ACCOUNTANTS

June 1, 1999

Consolidated Statement of Income and Retained Earnings

year ended March 31, 1999

(in millions of dollars)	*1999*	*1998*
Revenues		
Sales of power *(Note 3)*		
In-province	**$ 872**	$ 869
Out-of-province	**304**	244
Miscellaneous	**28**	27
	1,204	1,140
Expenditures		
Purchased power	**98**	120
Fuel	**276**	284
Operation, maintenance and administration	**277**	258
Depreciation, amortization and decommissioning *(Note 4)*	**189**	177
	840	839
Income before finance charges	**364**	301
Finance charges *(Note 5)*	**346**	344
Income (loss) before transfer and write-off	**18**	(43)
Transfer from fuel channel removal account *(Note 6)*	**9**	22
Income (loss) before write-off	**27**	(21)
Write-off of deferred cost – nuclear generating station *(Note 11)*	**450**	—
Net loss for the year	**(423)**	(21)
Retained earnings		
Beginning of year	**425**	446
End of year	**$ 2**	$ 425

See accompanying notes to the consolidated financial statements.

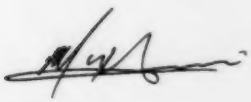
Consolidated Balance Sheet

as at March 31, 1999

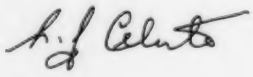
(in millions of dollars)	*1999*	*1998*
Property, plant and equipment *(Note 7)*		
Land, buildings, plant and equipment, at cost	**$5,218**	$5,175
Less: accumulated depreciation	**2,088**	1,923
	3,130	3,252
Long-term assets		
Sinking fund investments *(Note 12)*	**56**	70
Current assets		
Cash and short-term investments	**7**	4
Accounts receivable	**191**	188
Materials, supplies and fuel	**74**	77
Prepaid expenses	**3**	5
	275	274
Deferred charges		
Unrealized foreign exchange differences, less amounts amortized *(Note 8)*	**155**	111
Debenture and note discount and issue expenses, less amounts amortized	**25**	29
Deferred pension benefit *(Note 9)*	**25**	11
Deferred cost — nuclear generating station *(Note 11)*	**—**	450
	205	601
	$3,666	$4,197

See accompanying notes to the consolidated financial statements.

On behalf of New Brunswick Power Corporation



MAX LEWIS
Chairman



LINO J. CELESTE
Director

Consolidated Balance Sheet

as at March 31, 1999

(in millions of dollars)	1999	1998
Long-term debt *(Note 12)*		
Debentures and other loans	**$3,250**	$3,363
Less: sinking funds	**305**	288
	2,945	3,075
Current liabilities		
Short-term indebtedness *(Note 13)*	**159**	194
Accounts payable and accruals	**128**	105
Accrued interest	**84**	85
Current portion of long-term debt *(Note 12)*	**130**	99
	501	483
Deferred liabilities		
Irradiated fuel management and plant decommissioning *(Note 14)*	**197**	185
Fuel channel removal *(Note 6)*	**—**	9
Other *(Note 15)*	**21**	20
	218	214
Equity		
Retained earnings	**2**	425
	$3,666	$4,197

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flow

year ended March 31, 1999

(in millions of dollars)	*1999*	*1998*
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net loss for the year	**$(423)**	$ (21)
Amounts charged or credited to operations not requiring a current cash payment *(Note 16)*	**670**	184
	247	163
Net change in non-cash working capital balances	**21**	(25)
	268	138
Financing		
Debt retirements	**(81)**	(99)
Sinking fund payments	**(70)**	(67)
Increase (decrease) in short-term indebtedness	**(35)**	82
	(186)	(84)
Investing		
Expenditure on property, plant and equipment net of customer contributions and proceeds on disposal	**(65)**	(59)
Deferred pension benefit	**(14)**	(11)
	(79)	(70)
Net cash inflow (outflow)	**3**	(16)
Cash and short-term investments		
Beginning of year	**4**	20
End of year	**$ 7**	$ 4

See accompanying notes to the consolidated financial statements.

1. Significant Accounting Policies

The New Brunswick Power Corporation ("the Corporation"), established in 1920 as a Crown Corporation of the Province of New Brunswick by enactment of the New Brunswick Electric Power Act, has a corporate mission to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles appropriate for a rate-regulated entity, applied on a basis consistent with that of the preceding year except for changes disclosed in Note 2. The financial statements include the accounts of the Corporation and those of its wholly owned subsidiary, N.B. Coal Limited (N.B. Coal).

a) Regulation

The Corporation is regulated under a price cap system. Annual average rate increases greater than three percent, or the Consumer Price Index, whichever is higher, require regulatory review and approval by the Board of Commissioners of Public Utilities of the Province of New Brunswick (Public Utilities Board).

b) Property, Plant and Equipment

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and material, interest on funds used during construction and indirect charges for administration and other expenses, less credits for the value of power generated during commissioning. Administration and other expenses are capitalized during construction by applying a portion of such overheads to direct construction costs incurred each month. Certain training costs associated with the development of new facilities and costs of major maintenance activities which occur infrequently over the lives of related assets are also capitalized.

Interest during construction is capitalized monthly based on the cost of long-term borrowings. When assets are taken out of service for extended periods of time for refurbishment, interest during construction is charged based on the net book value of the asset concerned.

Costs incurred for conservation and energy management, including interest capitalized on programs with long-term benefits, are included as a separate category of property, plant and equipment.

Contributions in aid of construction which include amounts received from customers as well as research and development grants in respect of new facilities, are netted against the cost of related assets. Amounts received from customers are being amortized over the estimated service lives of the related assets, and the resulting credit is offset against the corresponding provision for depreciation.

The cost of distribution assets retired, net of dismantlement and salvage, is charged to accumulated depreciation. For all other property, plant and equipment disposed of, the cost and accumulated depreciation is written out of the accounts with the gain or loss on disposal being charged to operations.

Depreciation is provided for all assets sufficient to amortize the cost of such assets, less estimated salvage value over their estimated service lives. The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively. Depreciation is suspended when assets are taken out of service for extended periods for refurbishment. Depreciation is provided on certain mining equipment on an increasing charge basis, the depreciation amount being based on the amount of related debt retirement required during the year. All other assets are depreciated on a straight-line basis. Depreciation is provided on the net cost of property, plant and equipment in respect of which grants have been provided.

1. Significant Accounting Policies *(cont'd)*

The main categories of property, plant and equipment have been depreciated based on the following estimated service lives:

Assets	*Years*
Hydro Generating Stations	100
Thermal Generating Stations	35
Nuclear Generating Station	25
Combustion Turbine Generating Stations	25
Terminals and Substations	40
Transmission System	35 to 55
Distribution System	10 to 35
Buildings	
General	40
Head Office	50
Mining Equipment	20 to 25

Each asset category includes components which are depreciated over service lives shorter than their related main asset categories.

c) Inventories

Inventories of materials and supplies, oil and coal are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

d) Debenture and Note Discounts and Premiums, and Issue Expenses

The Corporation amortizes debenture and note discounts and premiums and the expenses of issues over the lives of the issues to which they pertain.

e) Foreign Exchange Transactions

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian (Cdn) dollars at rates of exchange prevailing at the balance sheet date except where such items have been hedged by the acquisition of a forward exchange contract, in which case the rate established by the terms of the contract is used in the translation. Unrealized losses or gains arising on translation of long-term items are amortized to income on a straight-line basis over the remaining life of the related monetary assets or liabilities, except that amounts associated with the financing of major construction projects still in progress are deferred until the project is completed before being amortized over the then remaining life of the related monetary liabilities. The unamortized balance of the deferred exchange gains or losses is accumulated in an unrealized foreign exchange account which is shown on the balance sheet under deferred charges.

Exchange gains or losses resulting from transactions affecting current operations are reflected in income.

f) Financial Instruments

Long-term debt

Long-term debt is recorded in the balance sheet at cost. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. The fair value estimated does not include costs that would be incurred to exchange or settle the debt.

Derivative financial products

The Corporation enters into forward exchange contracts to manage exchange risk related to interest obligations on US denominated long-term debt for terms up to twelve months. The Corporation also enters into oil swap agreements to reduce exposure to changes in the cost of oil used in the operations of its plants. The Corporation does not enter into derivative financial products for speculative purposes.

1. Significant Accounting Policies *(cont'd)*

g) Revenue

Billings to residential and general service customers are rendered monthly on a cyclical basis. All other customers are billed at the end of each month. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

h) Irradiated Fuel Management and Plant Decommissioning

In order to provide for the estimated future costs of permanently disposing of irradiated nuclear fuel and decommissioning the nuclear generating station to return the site to a state of unrestricted use, the Corporation annually charges income with amounts calculated to be adequate, when accumulated with interest, to cover the total costs of these future activities as they occur. The calculations of the anticipated future costs are based on a detailed study which takes into account various assumptions regarding the method and timing of dismantlement of the nuclear facility, the cost of transportation of nuclear material to permanent disposal facilities, and estimates of interest and inflation rates in the future. With respect to irradiated nuclear fuel, the annual charge is related to the amount of nuclear fuel consumed in each year while decommissioning requirements are charged on a straight-line basis over the life of the station.

The Corporation is also providing through an annual charge to income, for the estimated future costs of decommissioning its thermal generating stations. The amount of the charge, when accumulated with interest, is intended to cover the total costs of decommissioning activities as they occur.

Amounts charged each year to cover these activities are accumulated in a deferred liability account, together with interest, compounded annually, on the total amounts collected. Interest is calculated at the Corporation's long-term borrowing rate and is charged to income annually.

Costs incurred on a current basis relating to irradiated fuel management and plant decommissioning are charged against the deferred liability account.

In view of potential developments in the technology of decommissioning and irradiated fuel management, and because of the various assumptions and estimates inherent in the calculations, the Corporation reviews such calculations periodically, making adjustments as necessary on a prospective basis.

i) Pension Plans

Corporation employees belong to the Province of New Brunswick Public Service Superannuation Plan. This multi-employer plan provides pensions based on length of service and the average of the highest five consecutive years of earnings. The Corporation and its employees make contributions to the plan as prescribed in the Public Service Superannuation Act and its regulations. N.B. Coal maintains a private contributory defined benefit pension plan for its employees.

Under both plans, pension costs are actuarially determined using the projected benefit method, pro-rated on services and management's best estimate assumptions. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions and the difference between the actuarial present value of accrued pension obligations and the market related value of pension assets are amortized on a straight-line basis over the expected average remaining service lives of the respective employee group.

j) Retiring Allowance

The Corporation has a retiring allowance program for employees that provides a lump-sum payment equal to one week of pay for each full year of continuous employment to a maximum of 26 weeks of pay. The actuarial present value of accrued retiring allowance obligations for past service is amortized on a straight line basis over the expected average remaining service life of the respective employee group.

k) Early Retirement Programs

The total cost of such programs is charged to income in the year the program is initiated, irrespective of when payments are actually made.

l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from the estimates.

2. Changes in Accounting Policies

a) Depreciation Method for Nuclear Generating Station

Effective April 1, 1998, the Corporation prospectively changed the method of depreciation for the nuclear generating station from escalating to straight-line and shortened the service life of the station from 31 years to 25 years. This resulted in an increase in depreciation expense of $6 million in the year 1998/99.

b) Retiring Allowance

Effective April 1, 1998, the Corporation prospectively changed the method of accounting for retiring allowances from a cash basis to an accrual basis. This resulted in an increase in operations, maintenance and administration expenses of $3 million and an increase in finance charges of $1 million in the year 1998/99.

3. Sales

a) Power sales to the Province of New Brunswick and other government owned organizations are recorded at normal commercial rates.

b) Out-of-province sales of power include $183 million (1998 – $150 million) to utilities in the United States.

4. Depreciation, Amortization and Decommissioning

	1999	*1998*
Depreciation expense	**$186**	$174
Charges for decommissioning	**3**	3
	$189	$177

5. Finance Charges

	1999	*1998*
Interest expense		
– on debentures and other loans	**$321**	$323
– on deferred liabilities	**14**	15
	335	338
Less: Income from sinking funds and other investments	**35**	31
	300	307
Provincial government guarantee fee	**21**	22
Amortization of debenture discount and expense	**4**	4
Amortization of unrealized foreign exchange	**22**	12
	347	345
Less: Interest capitalized	**1**	1
	$346	$344

6. Fuel Channel Removal

The Corporation has eliminated the fuel channel removal liability account over a three year period which commenced October 1, 1995, following a determination that there was no requirement for the account. An amount of $9 million has been credited to income in the year ended March 31, 1999 (1998 – $22 million).

7. Property, Plant and Equipment

	1999		1998	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Power generating stations	**$3,683**	**$1,447**	$3,680	$1,320
Transmission system	**249**	**106**	247	101
Terminals and substations	**390**	**175**	386	163
Distribution system	**636**	**240**	616	224
Other properties	**57**	**24**	56	22
Communications equipment	**15**	**9**	15	8
Mining equipment and related assets	**74**	**44**	75	40
Motor vehicles and miscellaneous equipment	**66**	**43**	72	45
Conservation and energy management	**6**	**—**	5	—
Construction-in-progress	**42**	**—**	23	—
	$5,218	**$2,088**	$5,175	$1,923

8. Unrealized Foreign Exchange Differences, Less Amounts Amortized

	1999	1998
Exchange adjustment at balance sheet date	**$ 204**	$ 162
Less: accumulated amortization	**49**	51
	$ 155	$ 111

9. Deferred Pension Benefit

Corporation employees belong to the Province of New Brunswick Public Service Superannuation Plan (Public Service Plan) as described in Note 1i). Actuarial valuations are prepared periodically to determine the costs of the pension benefits and the appropriate amounts of contributions to the fund. The actuarial method used incorporates management's or the plan owner's best estimate assumptions to determine the present value of accrued pension benefit obligations based on projections of salaries and wages to normal retirement dates. The interest rate on accrued pension benefits and the rate of return on assets used in these calculations was 8.42%. The latest actuarial valuation done on the Public Service Plan was April 1, 1997.

9. Deferred Pension Benefit *(cont'd)*

The status of the costs and obligations of the Corporation's share of the Public Service Plan and N.B. Coal's private plan as at March 31, 1999 was as follows:

	1999	*1998*
Pension fund assets (market value)	**$540**	$543
Accrued pension obligations	**$512**	$472
Determination of pension expense for the year is summarized below:		
Cost of benefits for the year	**6**	5
Interest cost on accrued benefits	**40**	37
Interest on pension fund assets	**(45)**	(38)
Amortization of transitional surplus	**(1)**	(1)
Amortization of gains/losses	**1**	—
Pension expense	**$ 1**	$ 3

Total contributions to the plans in excess of pension expense, in the amount of $25 million (1998 – $11 million) have been set up as an asset under deferred charges.

10. Retiring Allowance Liability

The Corporation has a retiring allowance program for employees as described in Note 1j). Actuarial calculations are prepared to determine the amount of the Corporation's obligations for retiring allowances. The actuarial method used incorporates management's best estimate assumptions to determine the present value of the accrued retiring allowance obligation based on projections of salaries and wages to normal retirement dates. The interest rate used in the calculation of this obligation was 6%. The latest actuarial calculation was done as at April 1, 1998.

The retiring allowance obligation as at March 31, 1999 is $23 million.

Determination of the retiring allowance expense for the year is summarized below:

Cost of allowance for the year	**$ 1**
Interest cost on the accrued obligation	**1**
Amortization of transitional obligation	**2**
	$ 4

11. Write-off of Deferred Cost – Nuclear Generating Station

In 1997/98 the carrying value of the nuclear generating station was reduced by $450 million and an offsetting deferred charge of $450 million was recorded on the balance sheet. The Corporation committed to identify a new revenue stream designed specifically to recover the $450 million deferred charge over a future period or write off the amount in 1998/99.

During the fiscal year, the Corporation was not able to identify a new revenue stream to recover the $450 million deferred charge. Therefore, this deferred charge has been written off against income.

12. Long-term Debt

	1999	1998
Debentures guaranteed by the Province of New Brunswick	**$ 363**	$ 441
Debentures held by the Province of New Brunswick	**3,017**	3,021
	3,380	3,462
Less: Payments due within one year	**130**	99
	$3,250	$3,363

Debentures and Notes

Date of maturity	*Average interest rate*	*Canadian*	*US*	*1999*	*1998*
Years ending:					
March 31, 1999	—%	$ —	$ —	$ —	$ 65
March 31, 2000	8.3%	100	—	**100**	100
March 31, 2001	10.6%	251	—	**251**	251
March 31, 2002	9.6%	250	—	**250**	250
March 31, 2003	8.0%	500	181	**681**	670
March 31, 2004	7.5%	100	—	**100**	—
1-5 years	8.7%	1,201	181	**1,382**	1,336
6-10 years	10.2%	620	—	**620**	670
11-30 years	8.9%	550	815	**1,365**	1,440
Debentures and notes		$2,371	$996	**$3,367**	$3,446
Loan payable in annual installments of principal and interest at rates varying from 4.5% to 8.5% per annum to the year 2011.				**13**	16
Total long-term debt				**$3,380**	$3,462

The US$ debenture balance outstanding at March 31, 1999 is US$ 660 million.

The weighted average interest rate on all debentures and notes outstanding at March 31, 1999 is 9.07% (1998 – 9.06%).

Long-term Debt Payments

Long-term debt maturities (after deducting sinking funds estimated to be available at maturity inclusive of actual earnings to March 31, 1999 and future earnings calculated at projected interest rates) and sinking fund requirements in respect of debt outstanding at March 31, 1999 are as follows for the five years ending March 31, 2004, using exchange rates in effect at March 31, 1999 for debt denominated in foreign currencies:

(in millions)	*Debt maturities and sinking fund obligations*
Year ending March 31, 2000	$ 130
Year ending March 31, 2001	237
Year ending March 31, 2002	246
Year ending March 31, 2003	613
Year ending March 31, 2004	109

12. Long-term Debt *(cont'd)*

Sinking Funds

The Minister of Finance of the Province of New Brunswick, as Trustee for the Corporation, maintains a sinking fund for all debenture issues where required. Sinking fund earnings are reflected in the Corporation's income. Corporation debentures held in the fund are cancelled at maturity or on the debenture call date. Sinking fund investments are deducted from long-term debt except where the legally enforceable right to offset does not exist. The amounts not offset, totaling $56 million (1998 – $70 million), have been reclassified as investments.

Guarantee Fee

The Corporation pays an annual guarantee fee to the Province of New Brunswick, amounting to 0.6489% of the total, as at the previous year end, of long-term debt guaranteed by the Province, debentures held by the Province and short-term indebtedness to the Province, less the balance held in sinking funds.

13. Short-term Indebtedness

Short-term borrowings from banks are payable on demand. The Corporation has bank lines of credit, guaranteed by the Province of New Brunswick, for short-term borrowings totaling $120 million. In addition, the Corporation borrows funds for temporary purposes from other sources, including the Province of New Brunswick, from time to time.

N.B. Coal has bank lines of credit which are secured by a general assignment of book debts.

The short-term borrowings from the Province of New Brunswick are $159 million at March 31, 1999 (1998 – $194 million).

14. Irradiated Fuel Management and Plant Decommissioning

	1999	*1998*
Balance, beginning of year	**$185**	$172
Amounts charged (or credited) to operations for		
— decommissioning	**3**	3
— disposal of nuclear fuel consumed during the year	**(1)**	(3)
— interest on decommissioning and irradiated fuel	**11**	14
	13	14
Less: Expenditures incurred during the year	**1**	1
Balance, end of year	**$197**	$185

While the obligation is recorded, it is not funded.

15. Deferred Liabilities — Other

	1999	*1998*
Early retirement programs	**$ 20**	$ 24
Retirement allowance program	**4**	—
	24	24
Less: Amounts due within one year	**3**	4
	$ 21	$ 20

16. Amounts Charged or Credited to Operations Not Requiring a Current Cash Payment

	1999	1998
Write-off of deferred cost – nuclear generating station	**$450**	$ —
Depreciation, amortization and decommissioning	**189**	177
Amortization of debenture discount and expense	**4**	4
Amortization of unrealized foreign exchange	**22**	12
Disposal of nuclear fuel consumed during the year	**(1)**	(3)
Interest on plant decommissioning and irradiated fuel management	**11**	14
Early retirement and retirement allowance programs	**4**	2
	679	206
Transfer from fuel channel removal account	**(9)**	(22)
	$670	$184

17. Financial Instruments

Forward Exchange Contracts

At March 31, 1999, the Corporation had outstanding forward exchange contracts, representing a net commitment to purchase US$ 71 million (1998 – US$ 54 million). The weighted average rate of exchange protected by these contracts is Cdn $1.5227.

The fair value of forward exchange contracts as at March 31, 1999 is Cdn $108 million (1998 – $76 million).

Fuel Price Swap Agreements

At March 31, 1999, the Corporation had outstanding oil swap contracts totaling $27 million (1998 – $25 million) maturing over the next year. Of the total, $12 million (1998 – $13 million), constitutes a swap contract entered into on behalf of a customer. All gains and losses associated with this contract accrue to the customer.

Under the agreements, the Corporation exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price for the associated fuel. The differential to be paid or received is reflected in the cost of fuel.

If the outstanding swap contracts for which gains or losses accrue to the Corporation had been closed out at March 31, 1999, the net income (gain) would have been US $1 million.

Fair Value of Debt and Sinking Funds

The estimated fair value of long-term debt as at March 31, 1999 is $3,970 million compared to a book value of $3,380 million (1998 – $4,077 million compared to $3,462 million). The estimated fair value of all sinking funds as at March 31, 1999 is $395 million compared to a book value of $361 million (1998 – $394 million compared to $358 million).

18. Commitments

Belledune Wharf

The Corporation has entered into a twenty year operating lease, expiring in 2013, with a twenty year renewal option for the port facility at Belledune. This lease provides for annual charges of approximately $4.5 million.

Courtenay Bay Generating Station

The Corporation has entered into a development agreement with a third party for re-powering the existing 100MW unit to a 280MW combined-cycle natural gas unit for operation in 2001. The Corporation will contribute site infrastructure and will contract to purchase the electric output during the winter months over a 20 year contract term.

19. Contingency

N.B. Coal has an ongoing environmental responsibility to treat acidic water drainage from an inactive mine. Ongoing cost of treatment is approximately $.5 million per year.

20. Year 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

21. Comparative Figures

Certain 1998 figures have been reclassified to conform with 1999 financial statement presentation.

Statement of Generation

(millions of kWh)	*1998/99*	*1997/98*	*1996/97*	*1995/96*	*1994/95*
Hydro	**2,696**	2,357	2,860	2,731	2,797
Thermal	**12,430**	10,914	8,157	8,508	6,271
Nuclear	**4,970**	3,962	3,777	1,703	5,594
Combustion turbine	**3**	9	1	8	5
Purchases	**2,568**	3,148	3,908	6,274	3,559
Gross generation & purchases	**22,667**	20,390	18,703	19,224	18,226
Station service	**1,092**	1,004	904	842	959
Net generation & purchases	**21,575**	19,386	17,799	18,382	17,267
Losses – transformer & transmission	**663**	627	677	738	558
Total energy available for distribution	**20,912**	18,759	17,122	17,644	16,709

Statement of Sales

(millions of kWh)	*1998/99*	*1997/98*	*1996/97*	*1995/96*	*1994/95*
Sales					
Wholesale	**1,069**	1,091	1,094	1,068	1,061
Industrial	**5,985**	6,003	5,604	5,620	5,170
General service	**2,036**	2,066	2,048	2,023	1,938
Residential	**4,387**	4,575	4,441	4,418	4,326
Street lights	**72**	71	69	69	69
Total in-province sales	**13,549**	13,806	13,256	13,198	12,564
Interconnections	**7,048**	4,771	3,548	4,140	3,797
Total sales	**20,597**	18,577	16,804	17,338	16,361
Distribution losses	**315**	182	318	306	348
Total energy distributed & sold	**20,912**	18,759	17,122	17,644	16,709

Note: 1997-98 distribution losses were 263.5 GWh less 1996-97 restatement of 81.6 GWh.

Statements of Sales

(in millions of dollars)	*1998/99*	*1997/98*	*1996/97*	*1995/96*	*1994/95*
Wholesale	**68**	69	69	67	65
Industrial	**283**	280	263	258	234
General service	**170**	168	163	158	149
Residential	**335**	336	315	303	289
Street lights	**16**	16	15	15	14
Total in-province sales	**872**	869	825	801	751
Interconnections	**304**	244	182	187	164
Sales of power	**1,176**	1,113	1,007	988	915
Miscellaneous	**28**	27	30	30	27
Total revenue	**1,204**	1,140	1,037	1,018	942

Statement of In-Province Generation

(millions of kWh)	*1998/99*	*1997/98*	*1996/97*	*1995/96*	*1994/95*
Hydro	**2,696**	2,357	2,859	2,731	2,797
Coal	**3,065**	3,291	3,375	3,620	2,750
Heavy fuel oil	**3,114**	3,496	1,976	1,938	1,902
Orimulsion®	**1,509**	1,699	1,550	1,440	4
Nuclear	**4,558**	3,640	3,479	1,634	4,920
Combustion turbine	**1**	4	1	1	3
Purchases	**574**	1,116	1,894	3,705	2,017
Gross generation & purchases	**15,517**	15,603	15,134	15,069	14,393
Station service	**989**	988	882	828	923
Net generation & purchases	**14,528**	14,615	14,252	14,241	13,470
Loss – transformer & transmission	**663**	627	677	738	558
Total energy available for distribution	**13,865**	13,988	13,575	13,503	12,912

Peak Demand and Capacity

(MW)	*1998/99*	*1997/98*	*1996/97*	*1995/96*	*1994/95*
System net generating capacity	**4,119**	4,119	4,111	4,111	4,111
Firm capacity purchases	**49**	49	49	10	10
Total available resources	**4,168**	4,168	4,160	4,121	4,121
In-province system net peak demand	**2,786**	2,792	2,832	2,826	2,790
Firm exports	**531**	492	487	462	460
Operating reserve	**684**	684	687	725	725
Total requirement	**4,001**	3,968	4,006	4,013	3,975

Operating Statistics

(March 31st)	*1998/99*	*1997/98*	*1996/97*	*1995/96*	*1994/95*
Kilometres transmission lines	**6,660**	6,660	6,660	6,660	6,660
Kilometres distribution circuits	**25,475**	25,475	25,326	25,246	25,130
Number residential customers	**276,360**	274,116	271,759	269,190	266,123
Number industrial customers	**1,834**	1,832	1,764	1,706	1,667
Number general service customers	**23,103**	22,985	22,948	23,019	22,720
Number street light customers	**2,116**	2,573	2,538	2,601	2,699
Direct customers	**303,413**	301,506	299,009	296,516	293,209
Indirect customers	**40,673**	40,589	40,541	40,606	41,166
Total customers	**344,086**	342,095	339,550	337,122	334,375
Number of employees – regular	**2,463**	2,450	2,485	2,463	2,470
Number of employees – temporary	**69**	55	40	100	233
Number of employees – N.B. Coal Limited	**103**	103	101	144	145

Income Statement Summary

(millions of dollars)	*1998/99*	*1997/98*	*1996/97*	*1995/96*	*1994/95*
In-province revenue	**872**	869	825	801	751
Out-of-province revenue	**304**	244	182	187	164
Miscellaneous	**28**	27	30	30	27
Total fuel and purchased power	**374**	404	332	357	237
Operations, maintenance and administration	**277**	258	262	270	268
Early retirement programs	**—**	—	4	11	3
Depreciation, amortization & decommissioning	**189**	177	184	143	163
Finance charges	**346**	344	342	300	333
Income before transfers and write-off (loss)	**18**	(43)	(87)	(63)	(62)
Export sales stabilization transfer	**—**	—	—	—	5
Generation equalization transfer	**—**	—	33	49	83
Fuel channel account transfer	**9**	22	35	22	—
Income before write-off (loss)	**27**	(21)	(19)	8	26
Write-off of deferred cost	**450**	—	—	—	—
Net income (loss)	**(423)**	(21)	(19)	8	26
Interest coverage ratio[1]	**1.09x**[2]	.93x	.94x	1.03x	1.08x

[1] *Interest coverage ratio = (net income + interest expense – income from sinking funds and other investments)/(interest expense – income from sinking funds and other investments)*

[2] *Before write-off of deferred charge*

Balance Sheet Information

March 31st

(millions of dollars)	*1998/99*	*1997/98*	*1996/97*	*1995/96*	*1994/95*
Assets					
Property, plant and equipment	**3,130**	3,252	3,818	3,926	3,899
Long-term assets	**56**	70	57	110	126
Current assets	**275**	274	284	354	399
Deferred charges	**205**	601	134	137	180
Total assets	**3,666**	4,197	4,293	4,527	4,604
Liabilities					
Long-term debt	**2,945**	3,075	3,170	3,283	3,319
Current liabilities	**501**	483	450	494	491
Deferred liabilities	**218**	214	226	284	336
Equity	**2**	425	447	466	458
Total liabilities & equity	**3,666**	4,197	4,293	4,527	4,604
Debt ratio[3]	**100%**	89%	89%	89%	89%

[3] *Debt ratio = (debt/debt + equity, where debt = long-term debt + short-term indebtedness + irradiated fuel management and plant decommissioning + fuel channel removal – cash and short-term investments – sinking fund investments)*

Financial Statistics

	1998/99	1997/98	1996/97	1995/96	1994/95
Finance Costs *(millions of dollars)*					
Interest expense	**335**	338	350	366	361
Income from sinking fund and other investments	**(35)**	(31)	(41)	(43)	(40)
Provincial Government guarantee fee	**21**	22	22	22	21
Amortization and debenture discount	**4**	4	4	5	4
Amortization of unrealized foreign exchange	**22**	12	10	12	17
Interest capitalized	**(1)**	(1)	(3)	(62)	(30)
Deferred charges on plant in service	**—**	—	—	—	—
Net financial expense	**346**	344	342	300	333
Other Statistics					
Rate increase	**2.9%**[1]	2.9%[2]	2.9%[3]	2.0%[4]	2.8%[5]
CPI (New Brunswick)	**0.6%**	1.8%	1.5%	1.5%	0.6%
GDP increases (New Brunswick)	**2.3%**	2.0%	1.5%	2.5%	1.7%
Net capital expenditures *(millions of dollars)*	**65**	59	69	164	160
Change in total debt *(millions of dollars)* (net of sinking funds, cash and investments)[6]	**(123)**	(44)	(53)	30	57
% Breakdown of long-term debt:					
Canadian dollar	**70%**	71%	70%	70%	68%
US dollar	**30%**	29%	30%	30%	32%
Weighted average interest rate	**9.1%**	9.1%	9.1%	9.1%	9.2%

[1] *effective October 1, 1998*
[2] *effective October 1, 1997*
[3] *effective October 1, 1996*
[4] *effective December 1, 1995*
[5] *effective October 1, 1994*
[6] *Net debt = long-term debt + short-term indebtnedness - cash and short-term investments - sinking fund investments*

Overview

Corporate governance continues to evolve and progress in accordance with changes in North America's electricity industry and the need to effectively maintain direction of the Corporation. NB Power has been directed by the Province of New Brunswick to operate in a manner consistent with that of a private sector business model. The board of directors ensures that the Corporation's strategies and performance are in the best interests of the Province, building long-term value for owner and customers alike.

The board of directors is guided by the *Electric Power Act*, which legislates NB Power to "provide a continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power."

The Province of New Brunswick, as both owner of NB Power and regulator of the provincial electricity market, is currently reviewing electricity deregulation to determine the need for changes to provincial energy policy, and by extension, to the *Electric Power Act*. As part of the review, an all party Select Committee of the Legislative Assembly has conducted a public consultation on issues related to deregulation.

Board of Directors

The board of directors is comprised of the president of the Corporation and ten directors appointed by the Lieutenant-Governor-in-Council, with one director designated as chair. Board members are business and community leaders representing a range of interests, with the responsibility of directing the affairs of the Corporation in a manner consistent with sound business practices.

During the year, two new members joined the Board; Mr. Bernard Cyr and Mr. Richard Tingley are independent private business operators from Moncton and Fredericton, respectively.

The board's human resources committee is currently reviewing the role of the board in light of an increasingly effective and continually improving governance system. In part, the review involves an examination of existing governance policies in order to develop consistency with the best practices identified in the *Toronto Stock Exchange Report on Guidelines of Improved Corporate Governance in Canada*, such as may be applied to a crown corporation.

The board met thirteen times during 1998/99, reviewing issues related to business planning, finance, performance targets, risk management (environmental, health and safety) and senior management performance. Particular emphasis was placed on strategic deregulation planning, partnerships with other utilities to capitalize on the natural gas opportunity and the Year 2000 readiness program. The environment, human resources, and audit committees each have their specific responsibilities in support of the overall work of the board. These groups met regularly throughout the year, prior to the general meetings of the board.

Board Committees

The audit committee reviews corporate financial information, internal control systems and audit processes. Its members are Lino J. Celeste (Chair), Max Lewis, Dr. Gary Long and Bernard Cyr.

The environment committee reviews environmental policies and protection programs. Its members are Brenda Pirie-Seheult (Chair), Jim Purcell, Dr. Gary Long and Richard Tingley.

The human resources committee oversees corporate human resources strategy development and monitors governance issues. Its members are Jim Purcell (Chair), Max Lewis, Lino J. Celeste and Alvin Brun.

Board of Directors

Max Lewis - *Chairman*

Mr. Lewis retired from the Provincial Government in 1996 after twenty-six years in the public service. He served as CEO of the New Brunswick Liquor Corporation, deputy minister of supply and services and deputy minister of finance.

Dr. Gary Long - *Vice-Chairman*

Dr. Long is professor of administration at the Université de Moncton (Centre Universitaire Saint-Louis-Maillet) and has been president of both the Association of University Professors of New Brunswick and the Canadian Association of University Professors.

James F. Hankinson - *President & CEO*

Mr. Hankinson has been president and chief executive officer of NB Power since 1996. He is a director of a number of Canadian companies including CAE Inc. and Jannock Limited. He was president and chief operating officer of Canadian Pacific Limited until 1995.

Brenda Pirie-Seheult

Ms. Pirie-Seheult is vice-president of F.W. Pirie Company Ltd., Pirie Potato Company Ltd. and Victoria Transport Ltd. in Grand Falls and has served as director of the Canadian Forestry Association.

Lino J. Celeste

Mr. Celeste is retired president and CEO of NBTel and is currently chair of Bruncor Inc. and chair of the Saint John Airport.

Alvin Brun

Mr. Brun was president and CEO of Enviro Industries and now represents Kanalflakt, an international ventilation systems manufacturer. He has served on the Premier's Roundtable on the Environment and the Economy.

J.W. (Jim) Purcell

Mr. Purcell is former executive vice-president of Ganong Brothers Ltd. and has been a member of the national Canadian Manufacturers' Board and president of the New Brunswick division of the Canadian Manufacturers' Association.

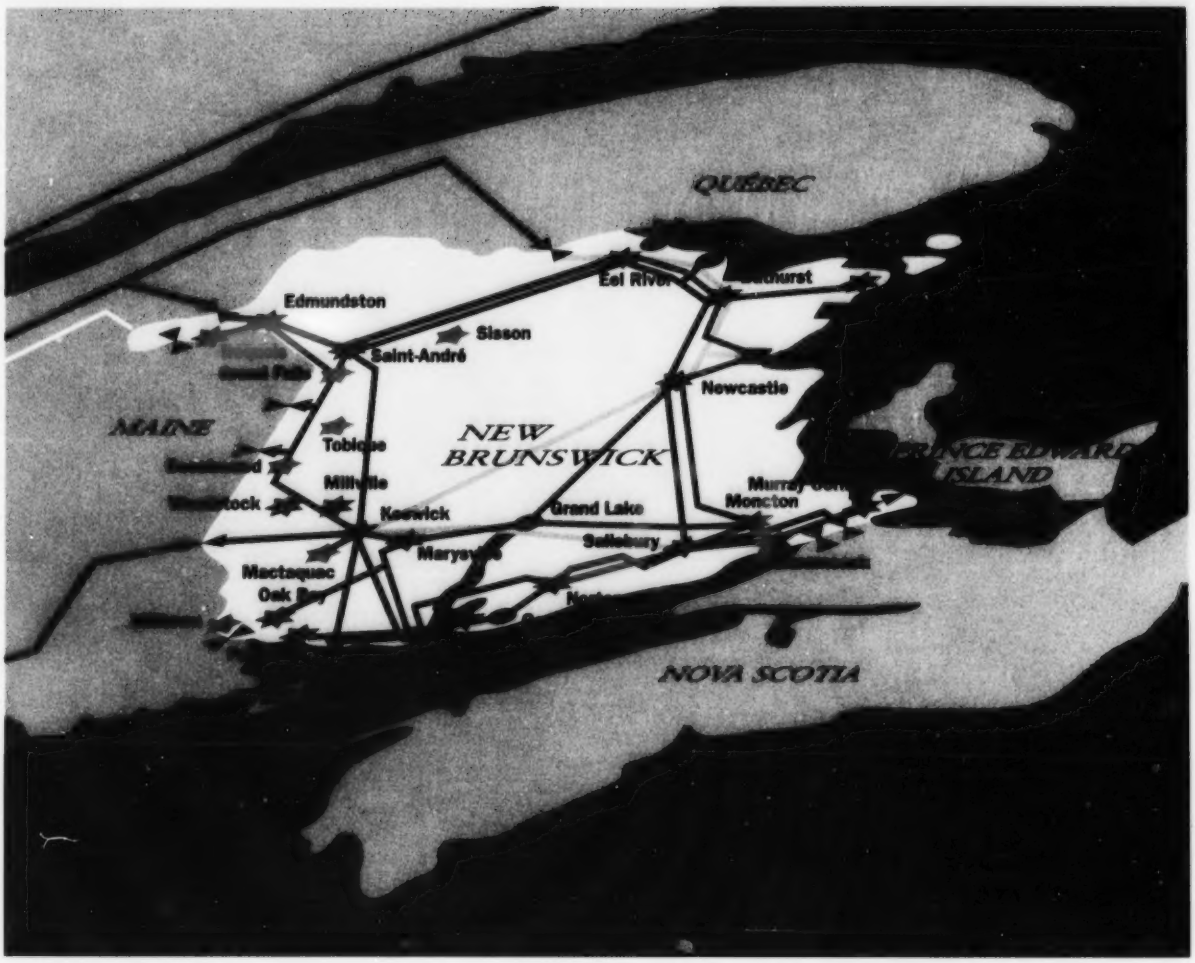
Richard Tingley

Mr. Tingley is former owner/operator of Tingley's Save-Easy in Fredericton and is in private business. He is past chair of the board of directors of the University of New Brunswick and is currently a member of the Maritime Provinces' Higher Education Committee.

Bernard Cyr

Mr. Cyr is owner of Cyr Holdings which operates Chateau Moncton, Dooly's Group and Pizza Delight and is active in commercial property development. He is past president of the YMCA in Moncton and serves on the Atlantic Canada development committee for the National Bank.

System Map



Generating Station Data Net Generating Capacity

Hydro		**Thermal**	
Milltown	4 MW	Grand Lake	57 MW
Tobique	20 MW	Courtenay Bay	253 MW
Sisson	9 MW	Dalhousie	300 MW
Grand Falls	66 MW	Coleson Cove	1006 MW
Beechwood	113 MW	Belledune	458 MW
Mactaquac	672 MW	**Total Thermal**	2074 MW
Total Hydro	884 MW		
		Combustion Turbine	
Nuclear		Grand Manan	28 MW
Point Lepreau	635 MW	Millbank	398 MW
		Ste-Rose	100 MW
		Total Combustion Turbine	526 MW
Total Generating Capacity			4119 MW

Legend

- Hydro Plant
- Nuclear Plant
- Thermal Plant
- Combustion Turbine
- Terminal
- Interconnection
- 345-kV Lines
- 230-kV Lines
- 138-kV Lines